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## Indonesia

Labor Market Policies and  
International Competitiveness*Nisha Agrawal*

Indonesia's labor market in the 1990s is characterized by rising labor costs, reduced worker productivity, and increasing industrial unrest. The main problem is generous, centrally mandated, but unenforceable worker benefits. Legislation encouraging enterprise-level collective bargaining might help reduce some of the costs associated with worker unrest.

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## Summary findings

Indonesia's labor market in the 1990s is characterized by rising labor costs, reduced worker productivity, and increasing industrial unrest. The main problem is generous, centrally mandated, but unenforceable worker benefits. Legislation encouraging enterprise-level collective bargaining might help reduce some of the costs associated with worker unrest.

Policy measures Indonesia adopted in 1986 led to a boom in manufacturing exports and foreign direct investment and put Indonesia on the path to rapid export-oriented, labor-intensive growth. In the second half of the 1980s, because of abundant cheap labor, real labor costs did not rise but worker productivity did, partly through improved education and training of the workforce.

There are increasing signs that in the early 1990s Indonesia's competitiveness is being eroded by several factors: rising labor costs, low worker productivity, and increasing industrial unrest.

One problem is generous, centrally mandated benefits, detailed in the new social security law. The estimated cost of the government-mandated benefits package

would be a hefty 12 percent of the wage bill. The other problem is that the government has greatly limited organized labor, viewing it as a threat to political and economic stability.

This approach of mandating benefits centrally through legislation without empowering workers to enforce compliance with the legislation (or negotiate their own benefits packages with employers) is beginning to strain industrial relations in Indonesia.

Policymakers should consider allowing effective, democratic plant-level worker organizations. Legislation to encourage collective bargaining at the enterprise level would enable workers and managers to negotiate outcomes that might improve worker productivity. Improving dispute resolution mechanisms and the workers' ability to be heard in the workplace could reduce the incidence of illegal or wildcat strikes.

But more than legislative changes are needed. Changes in approaches to industrial relations, deregulation, and increased competition in product markets could make unions' roles more positive, while limiting their "negative" role.

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**Country Department III  
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The World Bank**

**Indonesia  
Labor Market Policies and  
International Competitiveness**

**Nisha Agrawal**



**INDONESIA**  
**LABOR MARKET POLICIES AND INTERNATIONAL**  
**COMPETITIVENESS**

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## EXECUTIVE SUMMARY

- i. The policy measures adopted by Indonesia in 1986 led to a boom in manufacturing exports and foreign direct investment and put Indonesia on the path to rapid export-oriented, labor-intensive growth. The export boom occurred primarily in low-skilled, labor-intensive activities such as textile, clothing and footwear. It was fueled, in part, by a boom in FDI, as foreign manufacturers moved their labor-intensive activities to Indonesia to take advantage of Indonesia's cheap and abundant labor. This growth in manufacturing employment in Indonesia has been accompanied by increasing attention, both domestically and internationally, to labor market issues, especially since the early 1990s.
- ii. During the second half of the 1980s, Indonesia retained its comparative advantage in labor-intensive industries, both by maintaining sound labor market policies as well as through effective exchange rate management. Since it still had an abundant supply of labor, real labor costs did not rise during the 1980s, despite a substantial increase in employment generated through the reforms. Worker productivity, on the other hand, rose, partly due to the improved education and training of the workforce. As a result, unit labor costs in the manufacturing sector fell during the second half of the 1980s, helping Indonesia maintain its competitiveness vis a vis its regional neighbors.
- iii. There are increasing signs that in the early 1990s, Indonesia's competitiveness is being eroded due to a number of factors. Firstly, there are indications that labor costs have risen rapidly in the 1990s and that, as a result, Indonesia is losing its competitive advantage in labor-intensive industries, despite being a labor abundant economy. This situation has been exacerbated by external factors, such as the opening up of the low-cost economies of India, Vietnam and China, to foreign trade and investment. Since Indonesia still has a relatively abundant supply of labor, the rising labor costs appear to be largely the result of the minimum wage policy that the Government has adopted since 1990, rather than the outcome of market forces. Minimum wages have been raised substantially every year between 1989 and 1994 and have almost tripled during this period. The level of minimum wages in Indonesia, at about 50 percent of the average manufacturing wage in 1991, is high by international standards. It also appears to be high by domestic standards, since on average it is set at about four times the poverty line.
- iv. With the passage of the JAMSOSTEK or Workers' Social Security Law in 1992, non-wage costs could also rise substantially in the future, further eroding the competitiveness of the Indonesian economy. The new law provides the following benefits to all workers: (i) life insurance; (ii) retirement benefits; (iii) free health care for workers and their families; and (iv) workers' compensation. The estimated cost of this package is a rather hefty 12 percent of the wage bill. If implemented too rapidly or rigidly, it is likely to either raise labor costs, thus resulting in a reduction in employment, or in a substitution of other (wage and non-wage) benefits downwards in an effort by producers to control costs. In either case, the majority of workers in Indonesia are unlikely to benefit from such a package.

v. The new social security law is symbolic of the approach that the Government of Indonesia has taken for improving the welfare of Indonesian workers. Instead of allowing workers to organize themselves and to negotiate the particular benefit package that they want with their employers, the Government has taken it upon itself to provide certain benefits to workers through legislation. As a result, current labor legislation in Indonesia is a mixed bag of legislation protective of workers' welfare and, at the same time, controls over organized labor. The protective legislation is the result of the immediate post-independence concern for workers' rights and welfare, as well as the more recent response of Government to increasing criticism in this area. The controls over organized labor, as evidenced in the monolithic, Government-run trade union, SPSP, has resulted from the Government's response to a perceived threat to political and economic stability from organized labor. The ineffectiveness of SPSP is reflected in the fact that unionization rates in Indonesia are amongst the lowest in the world; these rates would probably rise if workers had more effective unions to choose from.

vi. This approach of mandating benefits centrally through legislation, but without empowering workers to enforce compliance with the legislation, is beginning to strain the industrial relations system in Indonesia. Labor unrest is increasing rapidly, as evidenced by the more-than-tenfold increase in the number of strikes and the more-than-hundred-fold increase in the number of strikers between 1989 and 1992. More importantly, the economic loss from these strikes, as measured in the number of working days lost, increased over 35-fold during this period. Most of these strikes have been in the export-oriented manufacturing sector, and have been caused by the lack of compliance of employers with legislation governing the minimum wage and working conditions. Despite protective legislation governing working conditions such as hours of work, overtime rates etc., working conditions of industrial workers in Indonesia, especially of women, are known to be unsatisfactory, because of poor compliance with the legislation. This is likely to be an important factor in explaining why the productivity of Indonesian workers is low relative to that of workers in neighboring countries.

vii. The situation in the labor market in Indonesia in the 1990s appears to be one of rising labor costs, low worker productivity and increasing industrial unrest. The main problem is one of generous, centrally-mandated benefits combined with the lack of means of enforcement of these benefits. In considering future policy, it would be important to consider that effective, democratic, plant level worker organizations, by providing "voice" at the workplace, may be able to play a positive role and reduce some of the costs associated with worker unrest. Legislation encouraging collective bargaining at the enterprise level could enable workers and managers to negotiate outcomes that might be able to enhance workers' productivity. Improving the dispute resolution mechanism and the ability of the workers to be heard can reduce the incidence of illegal or wildcat strikes. What would be needed, however, would be more than legislative changes. Careful changes in legislation, industrial relations practices, and increased deregulation and competition in product markets could improve the positive role that unions can play while controlling their "negative" role.



# **INDONESIA: LABOR MARKET POLICIES AND INTERNATIONAL COMPETITIVENESS**

## **I. INTRODUCTION**

1. Following the introduction of reforms in 1986, Indonesia was in a position to take advantage of its low-cost, low-skilled labor because the industries that emerged initially were simple, labor-intensive activities. Thus, within non-oil exports, the most spectacular growth was in the low-skilled textiles, clothing, and footwear (TCF) sectors. Typically, however, the pattern of industrialization in East Asia has evolved from simple, labor-intensive activities towards more skill and technology-intensive industries, propelled by rising real wages, an increasing stock of human capital, and a more sophisticated industrial infrastructure. During this more mature phase of industrialization, labor market and human resource development policies become increasingly more important for maintaining the competitiveness of the economy.

2. There are preliminary indications that Indonesia may soon be approaching a phase of tightening of the labor market, as evidenced by recent signs of real wage increases in agriculture, manufacturing and construction. As the labor market tightens, the key issue in the labor market will become not just the creation of jobs but the creation of better quality jobs. In this environment, as wages rise, the upgrading of skills and improving the productivity of labor will become key challenges for Indonesian policymakers. Furthermore, putting in place an industrial relations system that can deal with the more complex needs of a class of better educated and more vocal labor force will also become a high priority. A number of recent surveys of foreign and local investors indicate that investors are not only interested in the cost and quality of labor, but also in an environment that promotes peaceful labor relations. This paper examines key aspects of the labor market in Indonesia with a view to determining whether current labor market policies and institutions give Indonesia a comparative edge over its neighbors in the region. With this in mind, the paper looks at three aspects of the labor market:

- the cost of labor;
- the quality of labor; and
- the industrial relations system.

3. The rest of the paper is laid out as follows. Section II examines briefly the nature of the export boom and the FDI boom that has occurred in Indonesia since the mid-1980s. Section III examines their impact on the labor market. Section IV provides a comparative perspective on labor costs and productivity in Indonesia and in some of its neighbors. Section V examines policies that might affect the cost of labor, in particular, minimum

wage and social insurance policies. Section VI focuses on policies affecting the quality of labor, in particular, policies for human resource development and working conditions. Finally, Section VII reviews the role of the industrial relations system in affecting labor peace.

## II. THE POST-1986 EXPORT BOOM AND FDI BOOM

4. In response to the severe decline in oil prices in 1986, Indonesia initiated a wide-ranging program of economic reform aimed at stabilization and structural adjustment of the economy. This program had three dimensions: an increasingly strict fiscal policy; changes in factor prices towards their market levels; and deregulation and institutional reform. The economy responded handsomely to this package of reforms: real GDP grew at an annual average rate of about 7 percent between 1987 and 1993; the current account deficit was cut from 8 percent of GNP in the early 1980s to 3 percent by 1993; the inflation rate was held to below 10 percent between 1986 and 1992, and fell to 5 percent in 1992; and the debt service ratio declined from 40 percent in 1986 to 34 percent in 1993. Non-oil exports grew particularly fast and by 1992/93 were estimated to account for almost 70 percent of total exports, compared with about 20 percent a decade earlier.

5. The policy measures adopted in 1986, especially the devaluation and trade liberalization measures, finally put Indonesia on the path to rapid export-oriented, labor-intensive growth that its neighbors had adopted much earlier. This pattern of growth, characterized as the "East Asian model", had been adopted at least two decades earlier by the NIEs and at least a decade earlier by Indonesia's ASEAN neighbors<sup>1</sup> (Hill, 1992a). However, Indonesia had departed from this pattern in the 1970s, partly because of its much stronger natural resource endowment, the exploitation of which had required large complementary inputs of capital, and partly because of the "Dutch Disease" effects of the oil boom of the 1970s. Thus, during the 1970s, Indonesia's manufactured exports were negligible, never exceeding \$500 million and always less than 3 percent of total merchandise exports. It was only after the mid-1980s that Indonesia began to exploit its strong potential comparative advantage in labor-intensive manufactures. In this, Indonesia was aided by a dramatic increase in foreign direct investment (FDI) that occurred in response to the change in its investment climate.

6. The pattern of growth that emerged since the mid-1980s has been labor-friendly. Employment increased, especially paid employment which grew by 4.6 percent per annum between 1986-1990; in contrast, in the four year period prior to that (1982-86), paid employment fell slightly (at an annual average rate of 0.02 per cent), resulting in a net loss of 1.5 million paid jobs over the four years. During the second half of the 1980s,

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<sup>1</sup> The four NIEs or the Newly Industrializing Economies consist of Hong Kong, Singapore, Korea, and Taiwan, China. The six countries in the ASEAN or the Association of South East Asian Nations are: Thailand, Philippines, Malaysia, Indonesia, Brunei and Singapore.

employment in manufacturing grew especially rapidly, by 8.5 percent per annum. While, due to the availability of abundant unskilled labor in Indonesia, real wages for unskilled labor have not shown any noticeable increases until recently, average real labor earnings have increased as labor entered more productive and higher-paying jobs both across and within broad sectors. This increase in earnings, combined with the increased participation of women in the labor force, has been one of the major factors contributing to a substantial reduction in poverty in Indonesia.

## II.1 The Export Boom

7. Following the initiation of policy reform in the mid-1980s, there has been a boom in the export of labor-intensive manufactures in Indonesia.

**Table 1: Growth of Manufactured Exports in Indonesia, 1980-1991**

	1980	1985	1991	Increase per annum 1980-85	Increase per annum 1985-91
<b>(\$ million)</b>					
Total Exports of All Manufactures	501	2,044	11,816	32%	34%
Labor Intensive Manufactures	297	807	6,814	22%	43%
Resource Intensive Manufactures	119	992	3,488	53%	23%
Capital Intensive Manufactures	85	245	1,514	24%	35%
<b>Percentages</b>					
Manufactures as a % of Total Exports	2	11	41	na	na
Labor Intensive as a % of all Manufactures	59	39	58	na	na
Resource Intensive as a % of all Manufactures	24	49	30	na	na
Capital Intensive as a % of all Manufactures	17	12	13	na	na

Source: Hill (1992b).

8. As Table 1 indicates, total exports of all manufactures grew at roughly the same rate (32%-34%) during the pre-reform period (1980-85) and the post-reform period (1985-1991). However, the composition of the manufactured exports changed dramatically between the two periods: the rate of growth of labor-intensive exports doubled while that of resource-intensive exports halved. Thus, the pattern of exports that emerged in the post-reform period was strongly consistent with Indonesia's comparative advantage in labor-intensive activities. During the second half of the 1980s, labor-intensive manufactures have increased over eight-fold, from just over \$800 million in 1985 to about \$7 billion in 1991. As a result, the share of labor-intensive manufactures in the exports of all manufactures has risen from 39 percent in 1985 to 58 percent in 1991 (see Table 1).

**Table 2: Major Labor-Intensive Manufactured Exports in Indonesia, 1980-1991**  
(\$ million)

	1980	1985	1991	Increase per annum 1980-85	Increase per annum 1985-91
<b>Labor Intensive Manufactures</b>	297	807	6,814	22%	43%
<b>--of which</b>					
Clothing	98	339	2,265	28%	37%
Fabrics	43	227	1,552	39%	38%
Yarn	3	13	204	34%	58%
Footwear	1	8	994	52%	123%
Electronics	97	81	403	-4%	31%
Furniture	3	7	385	18%	95%
Toys & Sporting Goods	na	na	142	na	na
Glass & Products	3	8	91	22%	50%
Oils & Perfumes	21	23	94	2%	26%

Source: Hill (1992b).

9. Table 2 above shows that the rate of growth of exports of most labor-intensive manufactures increased substantially in the post-reform period. The most spectacular growth in exports was recorded in two items: footwear, which grew at 123 percent per annum in the second half of the 1980s, and furniture, which grew at 95 per cent per annum. The growth of footwear exports, in particular, has been spectacular, rising from only \$8 million in 1985 to almost \$1 billion in 1991, and quadrupling between 1989 and 1991. The Table also shows that despite the rapid growth in a number of items, the bulk (almost three-fourths) of labor-intensive exports in 1991 still consisted of a small number of commodities, in particular textiles, clothing and footwear. Textile and clothing exports doubled between 1989 and 1991, an astonishing performance in view of declining OECD growth rates and tightening MFA quotas. They have now become Indonesia's major manufactured export, accounting for one-third of the total, and easily surpassing plywood, which was the dominant export item of the 1980s. Table 2 also indicates that performance in some of the other more skill-intensive sectors, such as electronics, has not been as encouraging as in the low-skilled ones.

## **II.2 The FDI Boom**

10. Since 1987, there has been a dramatic increase in both domestic and foreign investment in Indonesia, most of it in export-oriented activities. This surge in investment has occurred in response to the improvements in a previously unattractive investment climate and in the country's trade regime. Most striking has been the rise in investment in Indonesia by Asia's four NIEs: Korea, Hong Kong, Singapore, and Taiwan, China (Hill, 1990). For decades, big companies in the industrialized West, and more recently, Japan, had been moving their manufacturing operations to lower-wage areas such as the four NIEs. But as wages have risen in these NIEs, and these countries have begun to lose their comparative advantage in labor-intensive manufacturing, not only has investment from the Western countries begun to move to other lower cost countries, such as Indonesia, but these NIEs have also started to move their own operations overseas to such countries.

11. The Government of Indonesia has taken several steps to encourage foreign entrepreneurs, especially from Japan and the Asian NIEs, to invest in Indonesia. In recognition of the fact that many potential investors from these countries are small, labor-intensive firms seeking to relocate their operations because of rising costs in their own countries, the Indonesian Government in May 1989 reduced the minimum amount of foreign investment required from \$1 million to \$250,000. This reduction has contributed to an increased flow of direct investment by Japanese, Korean and Taiwanese small- and medium-scale industries (Wie, 1991).

12. Table 3 illustrates the dramatic rise in the number and total amount of approved foreign direct investment (FDI) projects since 1986. It shows that the total amount of FDI approved per annum rose by over ten-fold between 1986 and 1992. The number of projects approved per annum also increased dramatically, from 93 in 1986 to 305 in 1992. The Table also shows that Asian countries are the predominant investors in Indonesia, and furthermore, that their predominance has grown during the second half of the 1980s.

Thus, in 1987, Asian countries accounted for only 30 percent of all projects approved in Indonesia, but by 1992, their share had increased to 65 percent. In 1992, the NIEs were the dominant foreign investors in Indonesia, accounting for almost 44 percent of all projects, with Japan accounting for another 16 percent.

**Table 3: Approved Foreign Investment in Indonesia, 1986-1992**

	1986	1987	1988	1990	1992
Total Amount of FDI approved (\$m)	848	1,481	4,409	8,750	10,313
Number of Projects	93	130	145	432	305
Percentage Asian --of which	na	30%	63%	78%	65%
--Japan	na	14%	17%	18%	16%
--NIEs	na	15%	45%	58%	44%

Source: Wie (1991); and Republic of Indonesia (1994c).

13. The availability of cheap and abundant labor in Indonesia is obviously an important motivating factor for foreign investors, especially the NIEs, to invest in Indonesia. Using indices of value added per worker in various industries as a measure of labor intensity, Wie (1991) found that the bulk of the FDI of the NIEs was concentrated in labor intensive activities. For example, data from 1990 show that 99 of the 102 approved Korean and 94 of the 97 approved Taiwanese manufacturing projects were located in labor intensive industries. Furthermore, 64 percent of Korean projects and 43 percent of Taiwanese projects were located in *highly labor intensive* industries. Since cheap labor is one of the major attractions for foreign investors in Indonesia, it is critical that Indonesia adopt policies that help it retain its competitive edge in labor-intensive industries, at least over the next decade or so, when it can start to make the transition to a more high-skilled economy.

### III. IMPACT ON THE LABOR MARKET

#### III.1 Impact on Employment

14. The impact of the reform program on total employment is difficult to judge. For Indonesia, the usual labor force measures of employment and unemployment are not very illuminating. Total employment in Indonesia is largely supply-determined, growing at around the same annual rate as the labor force (3.5 percent during the 1980s). Thus, inspection of the total employment series tells us nothing about what is happening to labor demand in Indonesia. The unemployment rate is also not a good indicator of the labor market situation: it has remained more or less constant through the 1980s, never rising above 3 percent during the 1982-90 period. What is more indicative of changes in the Indonesian economy's demand for labor is changes in wage employment. As Table 4 indicates, wage employment grew at an average rate of 4.5 percent per annum over the 1986-90 period--a sure sign of an improvement in the economy's demand for labor. The Table also shows the very fast growth of wage employment in agriculture and manufacturing and the even faster growth in trade and restaurants, partly derived from the growth in other sectors, and partly reflecting the rapid expansion of international tourism.

**Table 4: Wage Employment by Sector in Indonesia, 1986-1990**

	1986 (‘000)	1990 (‘000)	1986-90 Rate of Growth pa
Agriculture, Forestry, etc.	3,531	4,876	8.4%
Manufacturing	3,105	4,296	8.5%
Trade & Restaurants	789	1,169	10.3%
Public Services	7,283	7,300	0.1%
Other	2,872	3,435	4.6%
<b>Total</b>	<b>17,580</b>	<b>21,076</b>	<b>4.6%</b>

Source: Godfrey (1993) based on Labor Force Surveys by BPS.

15. The post-1986 boom clearly had a major effect on employment creation in Indonesia, and both male and female workers benefited from this boom, though the employment gains were larger for female workers. Table 5 reveals that the number of male employees in the manufacturing sector rose by 14 percent between 1982-86; during the next four years, this number rose by a further 32 percent. The rate of job creation for

female workers in the manufacturing sector also increased substantially in the post-reform period: during 1982-86, the number of manufacturing sector jobs for women increased by 13 percent; whereas during the following four years, the number of jobs increased by a staggering 53 percent. As a result, while the share of female workers in the manufacturing workforce remained unchanged at 32 percent between 1982-86, during the next four years it grew to 35%.

**Table 5: Numbers Employed and Real Earnings in Manufacturing in Indonesia, 1982-1990**

	1982 ('000)	1986 ('000)	1990 ('000)	Total Increase 1982-86	Total Increase 1986-90
<b>Male</b>					
No. of Wage Employees	1,852	2,113	2,779	14%	32%
Real Earnings Index	100	102	112	2%	10%
<b>Female</b>					
No. of Wage Employees	879	992	1,517	13%	53%
Real Earnings Index	100	114	124	14%	9%

Source: Godfrey (1993) based on Labor Force Surveys by BPS.

### III.2 Impact on Earnings

16. Table 5 also shows that between 1982-1990, female workers in the manufacturing sector gained substantially more than their male counterparts in terms of real earnings: while male earnings grew by 12 percent over the entire period, female earnings grew by twice as much. Furthermore, the earnings for male workers in the manufacturing sector have remained more or less constant in real terms between 1982-1989, and have only experienced an increase between 1989 and 1990. Female employees in the manufacturing sector, in contrast, experienced a growth in their real incomes in both the pre- and post-reform period, though again, a substantial part of their growth in earnings also occurred in the last year.

17. This trend is confirmed when we examine wage data instead of earnings data. Thus, the growth in employment between 1986 and 1989 in the manufacturing sector was achieved without a substantial increase in the real wage for either sex, which is consistent with the unlimited-labor-supply model. It is only in 1990 that there is some preliminary evidence of an increase in real wages in the manufacturing sector in Indonesia. Evidence



indicates that real wages in agriculture also appear to have turned sharply upwards in 1992, while a similar steep upturn in construction wages in some cities seems to have started a year earlier (Godfrey, 1993). Given the lag with which data on wages are available in Indonesia, it is still too early to judge whether these trends are evidence of a tightening of the labor market.<sup>2</sup> Some observers argue that Indonesia is still a labor abundant economy and that it has not yet approached the rising-real-wage turning point which signals a sustained tightening of the labor market (Manning, 1993a, 1994). They argue that while the export boom in the manufacturing sector has contributed somewhat to labor's welfare since the mid-1980s, it has not been large enough or sustained enough to absorb the large availability of rural labor in Indonesia.

18. Despite the rapid growth in employment in the manufacturing sector in Indonesia since the mid-1980s, it needs to be kept in mind that the sector still employs a relatively small share of the country's workforce. Thus, in 1990, the manufacturing sector in Indonesia accounted for only 10 percent of total employment, whereas the comparable share was 20 percent in Malaysia, and 17 percent in China, which has a significantly lower income than Indonesia. One reason for the smaller share of manufacturing sector employment in Indonesia as compared with other countries is the relatively recent growth of this sector in Indonesia. Another contributory factor, however, is the still incomplete process of internal and external deregulation of some of the sectors, such as food processing, that have strong backward linkages to labor-intensive activities in agriculture. Since 1991, progress in reducing average tariff protection and non-tariff barriers (NTBs) has slowed in Indonesia (World Bank, 1994c). Average tariffs remain high in Indonesia when compared with Indonesia's neighbors. For example, Indonesia's 20 percent average tariff compares with 14 percent in Malaysia (World Bank, 1995). In manufacturing, the average effective rate of protection (ERP) is estimated at 23 percent in 1994, with a wide dispersion within the sector. The ERP ranges from 9 percent in the export-oriented TCF sectors to 85 percent in the engineering sector. The food processing sector is another sector with high ERPs: excluding the polished rice subsector, ERP in the food, beverages, and tobacco sector is estimated at 65 percent. This high ERP in food processing is likely to be inhibiting potential exports and hence, potential growth of employment in labor-intensive sectors such as agriculture with which it has strong backward linkages. In contrast to the situation in Indonesia where the agro-business sector plays a marginal role in industrial output and employment, in India, for example, this sector has become the fastest growing sector of the economy, accounting for 52 percent of total industrial investment, 19 percent of the industrial labor force, and 13.5 percent of industrial output.<sup>3</sup> Clearly, further internal and external deregulation in Indonesia is required for the sustained growth of labor-intensive, manufacturing export industries over the next decade. This is critical for the general improvement in labor incomes in Indonesia.

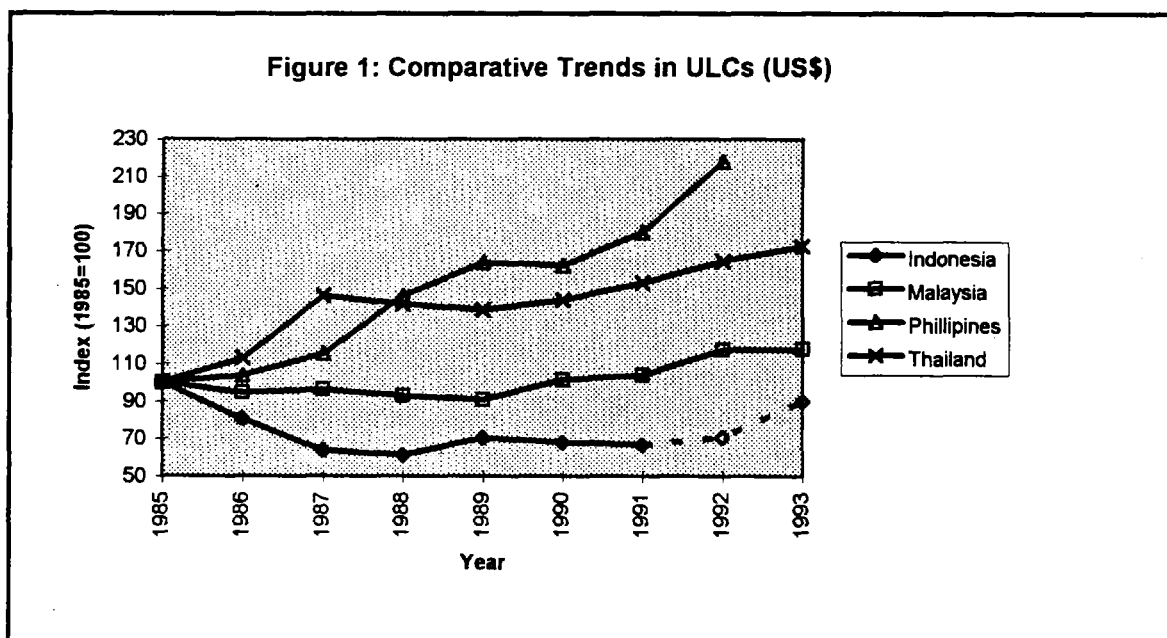
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<sup>2</sup> Wage statistics in Indonesia suffer from a number of significant shortcomings (Godfrey, 1991), especially in the manufacturing sector where they are available only with a three-four year lag.

<sup>3</sup> See Oxford Analytica Asia Pacific Daily Brief, January 23, 1995.

#### IV. COMPARATIVE LABOR COSTS AND PRODUCTIVITY

19. This section provides a comparative perspective on trends in labor costs and labor productivity in the four large ASEAN countries (Indonesia, Malaysia, Philippines and Thailand) with a view to determining whether Indonesia is maintaining its competitive advantage in the production of labor-intensive commodities vis a vis its neighbors in ASEAN. For purposes of comparison, Figure 1 depicts trends in the unit labor costs (ULCs) in the manufacturing sector in the four countries denominated in a common currency (US dollars).<sup>4</sup> The Figure shows that at least until 1991 (the most recent year for which we have information on Indonesian wages) Indonesia was indeed maintaining its competitiveness vis a vis its neighbors as far as labor costs were concerned. During 1985-91, Indonesia's ULCs in the manufacturing sector declined by over 30 percent, whereas in the other three countries (Malaysia, Philippines and Thailand), ULCs have either increased or remained constant over this period. Of the three comparator countries, Malaysia has fared the best: during 1985-91, its ULCs were almost constant, though since then they have shown a moderate upward trend. The country that has fared the worst is the Philippines, where ULCs have risen throughout the period and have more than doubled between 1985 and 1992. The performance of labor costs in Thailand lies between that of Malaysia and the Philippines: ULCs in Thailand rose steeply between 1985 and 1987, and while their growth has moderated somewhat since then, it has nevertheless led to a 75 percent in ULCs over the period.<sup>5</sup>



<sup>4</sup> Unit labor costs measure the cost of labor per unit of output. They are a better measure of comparative labor costs than wage rates since they take into account differences in labor productivity.

<sup>5</sup> The average nominal manufacturing wage in 1992 in Indonesia was \$1,110; in Malaysia it was \$5,808; in the Philippines it was \$1,551; and in Thailand it was \$3,385.

20. Even though wage data for Indonesia are unavailable beyond 1991, there are reasons to believe that the performance of the labor market in Indonesia has deteriorated since 1991. As discussed in Section V below, by 1991, legislated minimum wages had become as high as 50 percent of average wages in manufacturing; between 1991 and 1993, minimum wages have been raised further by another 31 percent (see Table 7 below). Since the majority of workers in the manufacturing sector are paid at rates quite close to the minimum wage, these hikes are likely to have an impact on the average wage in the manufacturing sector, especially in the formal and large-scale part of this sector. Assuming that in 1992 and 1993 the average wages in the manufacturing sector continued to be about twice the level of minimum wages, we can predict the average manufacturing wages for 1992 and 1993, as has been done and plotted using the dashed lines for Indonesia in Figure 1 above. The Figure shows a steep rise in Indonesia's ULC between 1992-93, causing some concern about the rapid erosion in its competitiveness.

21. For the purposes of comparing labor costs across countries it is necessary to measure costs in some common currency, as is done above. However, this makes it difficult to distinguish the role played by labor market policies from the role of other macroeconomic policies, in particular, exchange rate policies, in affecting the international competitiveness of these economies. To separate the influence of the two sets of policies, we need to look separately at the exchange rate and labor market outcomes during this period. During 1985-92, Indonesia aggressively managed its exchange rate in order to maintain its international competitiveness. As Table 6 indicates, during this period, Indonesia's real exchange rate depreciated (by about 15 percent), whereas that of the other three large ASEAN countries appreciated (by between 17-46 percent). Thus, part of the reason why Indonesia maintained an edge over its neighbors in terms of competitive labor costs is due to the judicious management of its exchange rate.

**Table 6: Comparative Changes in Inflation, Nominal and Real Exchange Rates  
1985-1992**

Country	Inflation Index in 1992 (1985=100)	Nominal Exchange Rate Index in 1992 (1985=100)	Change in Real Exchange Rate, 1985-1992
Indonesia	168	183	-15%
Malaysia	120	103	17%
Philippines	187	141	46%
Thailand	133	93	40%

Source: IMF.

22. If we look at the domestic labor market situation in the manufacturing sector in the four countries (depicted in Figures 2-5), we find again that Indonesia has had the best outcome, at least until very recently (Figure 2).<sup>6</sup> As discussed earlier, real labor costs in the manufacturing sector in Indonesia remained more or less constant during 1985-1991, reflecting the abundant supply of unskilled labor in Indonesia. Productivity, nevertheless, rose by almost 25 percent during this period, as a result of which real ULCs in Indonesia fell by about 25 percent during this period. None of the three comparator countries matches Indonesia's labor market performance in this respect. In Malaysia, while labor productivity grew at about twice the rate of growth in Indonesia, real labor costs kept pace with the growth in productivity (Figure 3); as a result, real ULCs in Malaysia remained almost unchanged over the whole period. The Philippines had the worst labor market outcome over the period: significant increases in real labor costs (by 52 percent) were accompanied by declining productivity, resulting in large increases in real ULCs (by 65 percent) during this period (Figure 4). The performance of the labor market in Thailand lies between that of Malaysia and the Philippines: between 1985 and 1987, the labor market situation deteriorated rapidly as real labor costs exploded while productivity growth stagnated (Figure 5); since then, however, productivity growth has outstripped the growth in real labor costs so that ULCs have declined. As a result, in contrast to the exploding ULCs in the Philippines, in Thailand ULCs have grown by only about 17 percent during this period.

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<sup>6</sup> In Figure 2, data for manufacturing wages in Indonesia in 1992 and 1993 are predicted as before.

Figure 2: Indonesia's Manufacturing ULC (Rp)

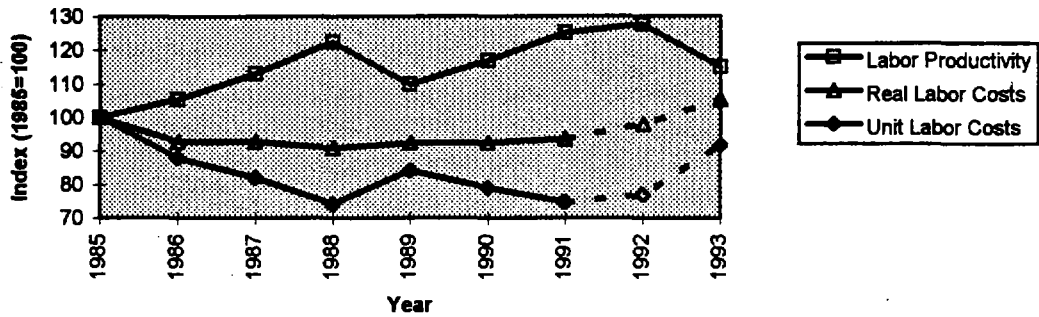
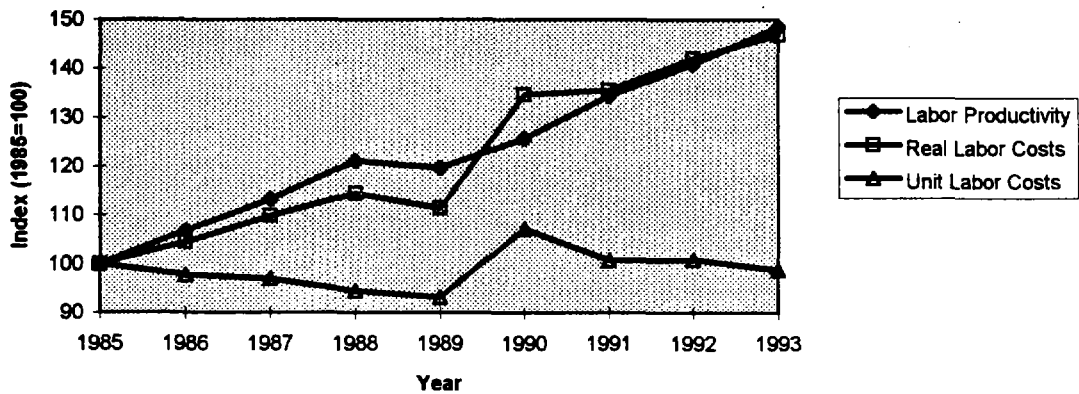
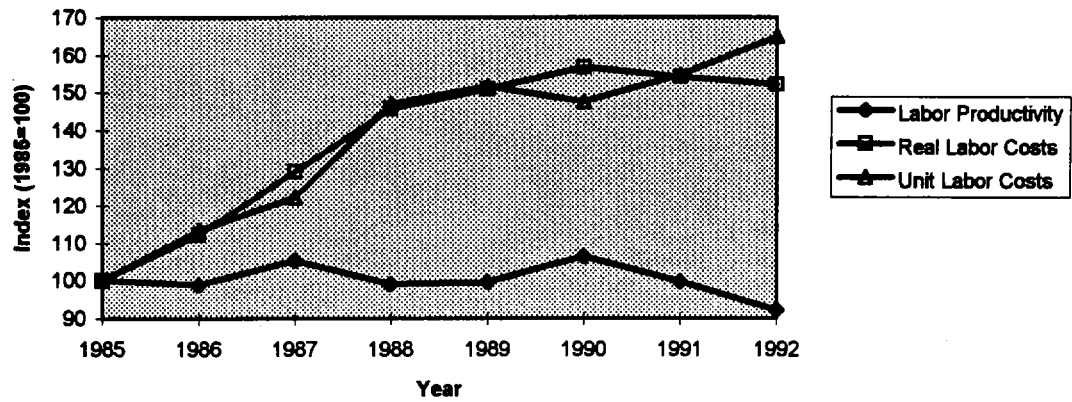
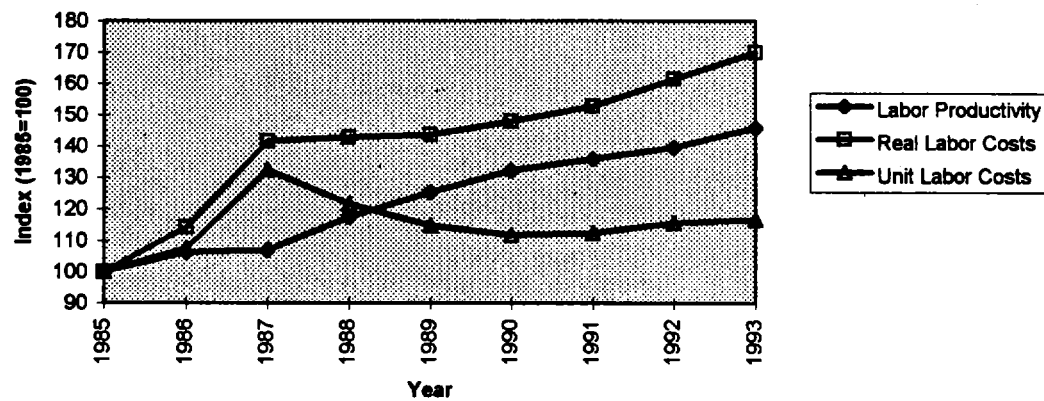


Figure 3: Malaysia's Manufacturing ULC (m\$)



**Figure 4: Philippines' Manufacturing ULC (Pesos)****Figure 5: Thailand's Manufacturing ULC (Baht)**

23. The analysis above clearly indicates that until 1991, Indonesia performed better than its neighbors in maintaining its competitive advantage in labor-intensive industries, both because of a better performance of the Indonesian labor market, as well as through effective exchange rate management. What is not clear, however, is whether Indonesia has maintained its competitive edge over its neighbors since 1991. While recent data on manufacturing wages in Indonesia are unavailable, our projections indicate that it is likely that rising labor costs have begun to erode some of Indonesia's competitiveness. Table 7 presents data on costs per worker, value added per worker, and unit labor costs in the manufacturing sectors of the four large ASEAN countries in 1992. It reveals that while Indonesia had the lowest absolute labor costs of the four countries, when productivity differences were taken into account, its ULCs were higher than those of the Philippines or of Thailand. Recent data on export growth in Indonesia indicates a slowing down in some of the more labor-intensive sectors, such as TCF, indicating perhaps that Indonesia is already becoming internationally uncompetitive in such activities. The reasons for this slow-down need to be examined more fully because Indonesia can ill afford to adopt policies that price one of its most abundant resources, unskilled labor, out of employment. In the next section, we examine the effect of some Government policies on wage and non-wage labor costs in Indonesia.

**Table 7: Comparative Labor Costs and Productivity in the Manufacturing Sector, 1992**

Country	Cost per Worker	Value Added per Worker	Unit Labor Costs
Indonesia	\$1,110	\$1,556	0.71
Malaysia	\$5,808	\$7,280	0.80
Philippines	\$1,551	\$2,714	0.57
Thailand	\$3,385	\$5,366	0.63

## V. POLICIES AFFECTING THE COST OF LABOR

### V.1 Wage Compensation

24. **Minimum Wage Policy in Indonesia** -- The Indonesian Government responded to the greater international scrutiny of labor standards in the late 1980s by focusing particularly on minimum wages. In 1989, it introduced legislation to regularize the existing haphazard system of minimum wages that had been introduced in most regions from the early 1970s.<sup>7</sup> The minimum wage in Indonesia refers to the lowest basic wage plus permanent allowances, where the basic wage must be at least 75 percent of the minimum wage. Minimum wages are to be fixed based on considerations of "minimum physical need" (KPM), cost of living, and labor market conditions. The minimum wage is set separately by region and by sector. The 1989 regulation states that minimum wages must be reviewed at least every two years. A 1990 Decree requires that minimum wages be adjusted once a year in proportion to the CPI.

25. A recent study of labor market legislation in six APEC countries compared key features of the minimum wage legislation in Indonesia with those in five other countries: Malaysia, Korea, Mexico, Chile, and the United States (World Bank, 1994a). The study found that minimum wage provisions in Indonesia are at least as generous as in any of the other five countries, even though the comparator countries all have significantly higher levels of income than Indonesia.<sup>8</sup> Malaysia, for example, has no legislated minimum wage at all. The other four comparator countries have legislated minimum wages but they either have more exclusions in coverage than Indonesia, and/or permit certain non-wage benefits to be counted towards the minimum wage.<sup>9</sup> Thus, for example, while the Indonesian minimum wage applies to all industrial workers, irrespective of the size of the workplace or the status of the employee (including probationers, trainees and apprentices), the US wage is applicable only to large businesses (with annual gross volume of sales/business of at least \$500,000), and only to certain types of employees (excluding students, trainees, or handicapped workers, who are the most likely to be discriminated against by employers as a result of the minimum wages because of their lower productivity). Furthermore, unlike the Indonesian law, the US law also permits employers to include the cost of boarding and lodging for their employees as part of the minimum wage.

26. Minimum wages in Indonesia have grown rapidly since the legislation was introduced in 1989 and the new procedures for calculating the wage rates were put into place. The Government's long term objective was to bring the minimum wage figure, which typically lagged the minimum physical needs (KPM) figure, in line with the KPM figure in all regions by April 1994. Towards this end, minimum wages have been raised

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<sup>7</sup> Minimum wages are currently regulated through the Ministry of Manpower Regulation No. PER-05/MEN/1989 (amended in 1989 and 1990).

<sup>8</sup> The 1992 per capita incomes of the six countries being compared were: Indonesia (\$670); Chile (\$2,730); Malaysia (\$2,790); Mexico (\$3,470); Korea (\$6,790); and the United States (\$23,240).

<sup>9</sup> Details of the comparison are contained in Annex Table A1.



substantially every year between 1989 and 1994 and have almost tripled during this period. As a result, in most regions they are now equal (or almost equal) to the KPM and in some regions they even surpass it. For example, effective January 1, 1994, the daily minimum wage for the greater Jakarta region was raised to Rp 3,800 per day, which is just over the basic needs figure for a single worker in that region. In some of the other regions, the rate is even higher: in the industrial zone of Batam Island, the daily minimum wage has been raised to Rp 6,750 and in Irian Jaya to Rp 4,500. From April 1, 1995, minimum wages were raised further nationwide by approximately 10 percent.

27. **Minimum Wages and Labor Costs** -- What is the likely impact of these rising minimum wages on the cost of labor in Indonesia? The answer to this question depends in a large part on the degree to which these minimum wages are complied with and the extent to which they are binding. Compliance with minimum wage regulations in any developing country is likely to be low, given that enforcement is expensive and, typically, limited resources are spent on it. In a country such as Indonesia, where a large share of employment is in the informal sector, enforcement is particularly difficult. Thus, any impact of the legislation in Indonesia is likely to be felt predominantly in the formal sector. Within the formal sector, compliance is likely to be higher in sectors that are dominated by more visible investors, such as foreign investors, multinationals (who often follow their own labor standards) or large domestic conglomerates, for whom the risks associated with non-compliance are higher. Unfortunately, as discussed earlier, a lot of such investors are in the export-oriented, labor-intensive sectors such as textile, clothing and footwear (TCF). In sectors that are dominated by smaller, less visible firms, compliance is likely to be lower, especially given that Indonesia lacks independent and effective unions who could potentially have an important role in enforcing minimum wages.

**Table 8: Comparison of Average Manufacturing Wage With Legal Minimum Wage in Indonesia, 1985-1994**

Year	Average Daily Wage in Manufacturing (Rp)	Legislated Minimum Daily Wage (Rp)	Ratio of Minimum to Average Wage (percent)
1985	2,469	817	33%
1986	2,243	879	36%
1987	2,647	987	37%
1988	2,800	1,119	40%
1989	3,035	1,134	37%
1990	3,256	1,481	46%
1991	3,606	1,820	50%
1992	na	2,033	na
1993	na	2,393	na
1994	na	3,134	na

Source: Republic of Indonesia, Department of Manpower.

28. To examine the issue of whether the minimum wages in Indonesia are likely to be binding, Table 8 above presents data on the average labor costs in manufacturing and the legislated minimum wage (on average) between 1985-1991. It shows that, over the years, as the minimum wage has been raised, it has become closer and closer to the average wage in the manufacturing sector. Thus, the minimum wage as a proportion of the average manufacturing wage has risen from 33 percent in 1985 to just over 50 percent in 1991. Furthermore, this ratio is likely to be even higher in 1994, given that the minimum wage has increased by a further 72 percent between 1991 and 1994. As discussed below, such a high level of minimum wage relative to the average wage seems to indicate that the minimum wage may well be binding in the manufacturing sector in Indonesia.

29. The ratio of minimum to average wages in manufacturing in Indonesia is high by international standards. The comparative study of labor market legislation in the six APEC countries had found that the four comparator countries which had legislated minimum wages appeared to have set their minimum wages at lower levels relative to the average manufacturing wages (see Table 9). In contrast to the 50 percent ratio in Indonesia in 1991, in the comparator countries the ratio ranged from 13 percent in Mexico in 1990 to 38 percent in the United States in 1991. These estimates suggest that the minimum wage may be more binding in Indonesia than it is in the other four countries in the sample.

**Table 9: Comparison of Minimum Wage with Average Manufacturing Wage in Six APEC Countries**

Country	Ratio of Legislated Minimum Wage to Average Manufacturing Wage
Indonesia	0.5
Malaysia	No minimum wage
Korea	0.25
Chile	0.2
Mexico	0.13
United States	0.38

Source: World Bank (1994a). For details see Annex Table A1.

30. Other evidence indicates that, at least in the large and formal industrial sector where compliance with the minimum wage regulations is likely to be higher, minimum wages in Indonesia are indeed binding and that their high levels have begun to erode the competitiveness of the more labor-intensive industries, such as TCF. For example, newspaper reports indicate that South Korean textile entrepreneurs operating in Indonesia have threatened to relocate their factories outside Indonesia if the Government raises the minimum wage further in April 1995, as has been announced (The Indonesia Times, October 21, 1994). Furthermore, the Indonesian Textile Association has indicated that if

minimum wages are raised further, "there will be some textile factories going out of business" (The Jakarta Post, November 12, 1994). There are also growing signs that with the opening up of the low cost economies of China, Vietnam and India to foreign trade and investment, Indonesia is coming under increasing pressure from foreign investors to contain its labor costs in order to maintain its competitiveness. In China and Vietnam, for example, hourly labor costs in the textile industry (at 0.36 cents and 0.37 cents, respectively) are only about 70 percent of those in Indonesia (0.49 cents) (Far Eastern Economic Review, July 28, 1994).

31. Are minimum wages too high in Indonesia? Since in Indonesia, minimum wages are set with the objective of reducing poverty by guaranteeing workers some kind of a living wage, one way to answer this question is to see how the minimum wage level is related to some measure of basic needs. In Indonesia, the level of minimum wages is explicitly related to the "minimum physical needs" (KPM) figures which are calculated specifically for this purpose. However, as Table 10 indicates, the regional KPM figures bear no relationship to the regional poverty lines, which are also calculated on the basis of some alternative measure of minimum physical needs. In fact, the KPM figures are higher than the poverty line figures by a factor ranging from 3.5 times in Jakarta to 5.3 times in East Nusa Tenggara. The reasons why the KPM figures are so much higher than the poverty line figures need to be investigated carefully. If the poverty line figures are indeed representative of minimum needs in Indonesia, then it could be argued that the minimum wage levels are indeed too high. In any case, since poverty in Indonesia is largely a rural and informal sector phenomenon, and minimum wages are likely to be complied with only in the formal, industrial sector, they are unlikely to be an effective tool for reducing poverty.

**Table 10: Regional Poverty Lines and Minimum Physical Needs (KPM) Figures in Indonesia, 1990**

	<b>Poverty Line (Rp/month)</b>	<b>KPM for a Single Worker (Rp/month)</b>	<b>Ratio of KPM to Poverty Line</b>
<b>SUMATRA</b>	16,792	na	na
Aceh	16,131	69,446	4.3
North Sumatra	16,160	75,004	4.6
West Sumatra	16,908	62,681	3.7
Riau	20,541	97,357	4.7
South Sumatra	16,219	77,124	4.8
Lampung	15,995	75,027	4.7
Other Sumatra /a	18,195	67,603	3.7
<b>JAVA AND BALI</b>	16,475	na	na
Jakarta	22,000	76,230	3.5
West Java	17,426	68,889	4.0
Central Java	14,774	70,578	4.8
Yogyakarta	15,053	61,250	4.1
East Java	15,703	58,158	3.7
Bali	16,303	78,753	4.8
<b>KALIMANTAN</b>	18,703	na	na
West Kalimantan	20,010	84,890	4.2
South Kalimantan	16,343	76,950	4.7
Other Kalimantan /b	19,289	99,068	5.1
<b>SULAWESI</b>	15,689	na	na
North Sulawesi	16,023	65,716	4.1
South Sulawesi	15,722	78,138	5.0
Other Sulawesi /c	15,339	71,385	4.7
<b>EASTERN ISLANDS</b>	16,054	na	na
West Nusa Tenggara	14,535	63,581	4.4
East Nusa Tenggara	16,061	85,164	5.3
Other Eastern Islands /d	18,817	96,800	5.1

Source: Poverty Line data from World Bank (1993); KPM data from the Republic of Indonesia (1994a).

a/ Includes Jambi and Bengkulu; KPM figure calculated as a simple average of the two.

b/ Includes Central and East Kalimantan; KPM figure calculated as a simple average.

c/ Includes Central and Southeast Sulawesi; KPM figure calculated as a simple average.

d/ Includes Maluku; excludes East Timor and Irian Jaya.

32. To sum up, it appears that Indonesia's minimum wages are already high, both by international and by domestic standards, and caution must be exercised in raising them further, for fear of eroding competitiveness, lowering employment growth and, paradoxically, of increasing poverty. There is little evidence that minimum wages are an effective tool for reducing poverty, which is largely a rural and informal sector phenomenon in Indonesia. As discussed above, minimum wages tend to be complied with only in a small part of the economy, namely, the formal, industrial sector. Even there, workers will not always experience an increase in their welfare because of higher minimum wages since employers may respond to increases in minimum wages by reducing other forms of non-wage compensation that are not covered by minimum wage law, such as holidays, vacation, sick-leave pay, health insurance, and retirement benefits. Anecdotal evidence indicates that this substitution is indeed occurring in Indonesia and that some employers have been withholding holiday bonus payments in response to the imposition of higher minimum wages.

33. Even when minimum wages have a limited direct impact on the cost of labor, either due to noncompliance or due to the downward adjustment of other benefits, introducing unrealistically high minimum wages could have a potentially large indirect cost in the form of worker unrest and protest. In Indonesia, as discussed below in Section VII, the higher minimum wages mandated by law are raising workers' expectations, and in the absence of enforcement mechanisms, are leading to non-compliance and increased worker unrest. Given that the costs of the minimum wage policy are clearly visible but its benefits are not, reliance on minimum wages as a poverty alleviation tool should be reduced. While it may be politically impossible to eliminate minimum wages, measures could be taken to limit the negative impact of the minimum wage legislation on employment and labor costs in Indonesia by limiting further increases in the level of the minimum wages, and by limiting the scope of its coverage to larger firms and to a select group of employees (for example, by excluding from its coverage students, trainees, and other groups with lower productivity).

## **V.2 Non-Wage Compensation**

34. **Social Security Policy in Indonesia** -- In Indonesia, the Workers' Social Security, or JAMSOSTEK, law was enacted on February 17, 1992 in Law No. 3 of 1992. JAMSOSTEK provides the following benefits to workers: (i) life insurance; (ii) retirement (provident fund) benefits; (iii) free health care for workers, their spouses, and up to three children; and (iv) workers' compensation insurance for work-related accidents and illnesses. Every worker is entitled to JAMSOSTEK coverage, although there is provision for participation to be phased in over time. The current implementation regulations restrict initial participation to firms with 10 or more employees or a payroll of more than one million rupiah. For the health insurance program, employers who already have health maintenance programs with superior benefits need not participate initially. Most of the cost of the new social security program is to be funded by contributions from employers, with a much smaller contribution (2 percent of wages for the old age provident fund program) from workers. These are fully-funded programs, without any provision for

Government subsidy. The legislation requires the entire program to be administered by PT ASTEK, a state-owned enterprise, which has thus far been responsible for administering the previous, much smaller, program.

35. **Social Security Policy and Labor Costs** – For analytical purposes, JAMSOSTEK is best conceptualized as the imposition of a tax on the use of labor by employers, in order to fund the various benefits outlined above to employees. Table 11 contains the estimated costs of the different components of the social security system, expressed as percentages of wages (McLeod, 1993). It shows that for the average worker, the total contribution for the social security program will be equivalent to a rather steep 12 percent tax on wages. If employers are unable to pass the tax on to employees in the form of lower wages, say because of the presence of binding minimum wages, then the total cost of labor will rise, and employment will fall. If employers are able to pass the tax on to employees by lowering wages, then workers are still not better off because instead of negotiating the package of benefits that they want with their employers, they are forced to accept this particular package. According to McLeod (1993), the JAMSOSTEK approach “substitutes the coercive power of government for the bargaining power of trade unions in attempting to force employers to provide improved benefits (of a particular kind) to their employees” (p.89).

**Table 11: Estimated Costs of the JAMSOSTEK Program in Indonesia**

Program Component	Cost as a % of the Wage rate
Health Insurance	3.0-6.0%
Workers' Compensation Insurance	0.24-1.76%
Retirement Fund	5.7%
Life Insurance	0.3%
Average Total Cost	12.0%

Source: McLeod (1993).

36. The study referred to above on labor legislation in six APEC countries also compared the legislated social security program in Indonesia with those in the other five countries (World Bank, 1994a). The study found that while the details of the programs for old age, disability, death, sickness, and work injury benefits vary from country to country, the new social security program in Indonesia, JAMSOSTEK, is relatively ambitious in coverage and compares favorably to those in the more developed APEC countries.<sup>10</sup> The new legislation is a bold move for an economy at Indonesia's stage of development -- countries such as South Korea introduced pension schemes at a much later

<sup>10</sup> Details of the comparisons are contained in Annex tables A2-A4. Table A2 compares legislation for old age, disability and death programs; Table A3 for sickness benefits; and Table A4 for work injury programs.

stage. While it may be viewed as an important step towards improving worker welfare, given the size and the cost of the program, too rapid and rigid implementation is almost certain to create problems. The cost implications of JAMSOSTEK, estimated at about 12 percent of the wage bill, are high and could have a major effect on limiting the growth of employment in Indonesia, especially in the smaller scale firms whose capacity to make regular contributions is likely to be limited. Furthermore, in the export sector, this blanket social security program is likely to affect the ability of firms to compete in international markets. Finally, since the legislation is initially applicable only to medium- and large firms (i.e., those with more than 10 employees or with a payroll of more than one million rupiah), it might have the unintended and undesirable consequence of increased informalization of the industrial sector, as employers try and evade this additional tax on their revenues. In light of all these potential problems, it is appropriate that the Government move cautiously in implementing the provisions of the new legislation.

## **VI. POLICIES AFFECTING THE QUALITY OF LABOR**

37. While labor productivity in Indonesia has been increasing since 1985, it remains low compared with its ASEAN neighbors (see Table 7 above). There are a number of complex factors that affect labor productivity, including the quantity and quality of human and physical capital, working conditions, technology, and a host of institutional factors pertaining, in particular, to the industrial relations system. This paper focuses only on the role of labor market policies (broadly defined) in affecting productivity. Thus, in explaining the low productivity of the Indonesian workforce, it looks at the role of: (a) human resource development policies; and (b) working conditions.

### **VI.1 Human Resource Development Policies**

38. One of the challenges currently facing Indonesia is how to upgrade the quality of its stock of human capital. There is an urgent need to develop an effective strategy of human resource development in order to meet the needs of the 1990s and beyond, when the economy moves forward from its comparative advantage of a low-wage workforce employing relatively low skills, towards an economy with higher productivity and raised wages for its workforce, while at the same time maintaining its international competitiveness. Other countries, including many of its neighbors in Asia, have successfully made the transition that is now facing Indonesia. Their governments have intervened in human resources development through expanding access to primary and secondary education and raising its quality; supporting private training systems; expanding public technical education and training, flexibly, in response to the needs for more skilled workers; and encouraging employer-training. Below, we examine the education and training policies in Indonesia with a view to identifying key constraints and policy options.

39. **Education Policies** — Jones and Manning (1992) suggest that one of the most dramatic changes in Indonesia in recent decades has been in the educational attainment of its labor force. As recently as 1971, 70 percent of the population of working age had no education at all or incomplete primary education. By 1990, this proportion had fallen to 44 percent. Table 12 shows this dramatic improvement, and also indicates how this change has been particularly striking for women. Between 1971 and 1990, the proportion of working age women with none or incomplete primary education has fallen from 78 percent to 50 percent; at the same time, the proportion of with secondary school education has increased four-fold from 5 percent to 20 percent.

**Table 12: Population Aged 15 Years and Older, by Educational Attainment in Indonesia, 1961-1990**

Year	No Schooling	Percentage of Population with:			Academic or University Education	Total Percentage
		Incomplete Primary Schooling	Completed Primary Schooling	Completed Lower or Upper Secondary Schooling		
Males						
1961	58	23	17	5	0.2	100
1971	32	29	27	10	0.7	100
1980	22	36	26	16	0.9	100
1990	12	24	32	29	2.5	100
Females						
1961	80	11	7	2	0.0	100
1971	57	21	17	5	0.2	100
1980	41	30	19	9	0.3	100
1990	25	25	28	20	1.3	100
Both Sexes						
1961	68	17	12	3	0.1	100
1971	45	25	22	8	0.4	100
1980	32	33	22	12	0.6	100
1990	19	25	30	25	1.9	100

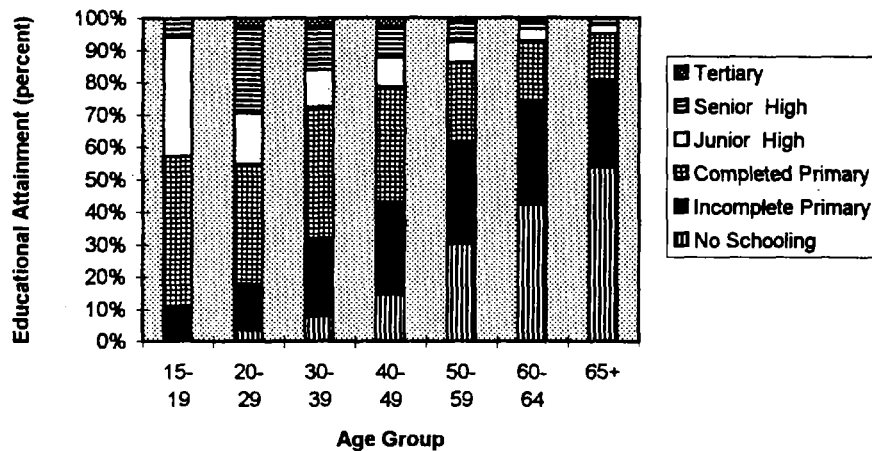
Source: Republic of Indonesia, Department of Manpower (1993).

40. Despite the improvement, the educational attainment of Indonesia's labor force is low (4.6 years of education) compared with Malaysia and the Philippines (more than 7 years in both) (Jones, 1989). This is due to the slow movement of older, poorly educated cohorts out of the labor force in Indonesia. As Figure 6 indicates, the educational gradient from the younger to the older ages is very steep indeed. Among the population aged 15-19 in 1993, only 10 percent had less than a complete primary school education; the



comparative figure for those aged 60-64 was 74 percent. This is testimony to the success of the compulsory education policies instituted in the 1970s. As the older workers leave the workforce and new entrants who have grown up in the era of compulsory education move into the labor market, the educational levels of the workforce can be expected to rise rapidly.

**Figure 6: Indonesia: Education of Labor Force by Age Group, 1993**



41. In Indonesia's first 25-year development plan, educational policy focused on increasing access to schooling opportunities, centered on an extensive school building program. This led to an expansion in enrollment rates at all levels of education. As a result, enrollment rates in Indonesia now compare favorably with those in the comparator countries for all levels of education (Table 13).

**Table 13: Comparative Educational Enrollment Rates, 1991**

	Percentage of Age Group Enrolled in Education		
	Primary	Secondary	Tertiary
<b>Indonesia</b>			
Total	116	45	10
Female	114	41	na
<b>Malaysia</b>			
Total	93	58	7
Female	93	59	na
<b>Philippines</b>			
Total	110	74	28
Female	111	75	na
<b>Thailand</b>			
Total	113	33	16
Female	88	32	na

Source: World Development Report, World Bank( 1994b).

42. While the quantity of education has improved dramatically in Indonesia, major educational challenges lie ahead for the Government of Indonesia (World Bank, 1994c). In primary education: about 23 percent of those who enter grade 1 (mostly children of poor families) never complete their primary education; every year, 1.2 million children drop out of primary education; every year, 1.2 million primary graduates do not continue to secondary schools. Secondary school intake has been faltering in the past five years, resulting in sluggish enrollments at the junior and senior secondary levels. In higher education, low quality and efficiency are a concern.

43. Central to meeting these challenges is the enhancement of the quality of education at all levels of education. At the primary level, it is obvious that with the expansion of access already achieved, the focus needs to shift to raising quality. The present low quality is reflected in low wage differentials between workers with and without primary education (McMahon and Boendiono, 1992). At the secondary level also, a new strategy is needed to boost the quality of education in the light of recent flagging enrollment rates. Again, the present low quality of junior secondary education is reflected in low wage differentials between those with and without such education. Corroborating evidence is provided by international comparisons which show that Indonesia's primary and secondary students lag behind their regional counterparts in reading competency tests (Table 14). At the tertiary level, the role of public institutions needs to be redefined in order to provide efficient, diversified, and better-quality services for post-secondary education.

**Table 14: Comparative Reading Achievement Test Score, 1992**

<b>Country</b>	<b>Mean Score (%)</b>
Indonesia	51.7
Philippines	52.6
Thailand	65.1
Singapore	74.0
Hong Kong	75.5

Source: World Bank (1994c).

44. The Government has put forth ambitious targets for improving the quantity and quality of education in the Sixth Five Year Development Plan, REPELITA VI (1994/95-1998/99). Key goals include: expanding access for junior secondary education with a view to achieving universal 9-year education within the next 10 to 15 years; targeting the poor, especially in primary education; providing quality-enhancing inputs such as textbooks and a better incentive system for teachers; improving educational content to ensure relevance, especially for primary and secondary education; improving quality of higher education, with emphasis on staff upgrading; placing greater emphasis on science and engineering programs as well as research in higher education; increasing access to pre-school education through enhanced community participation; and increasing emphasis on vocational secondary education. However, given the Government's limited resources, not all of these objectives appear affordable. The World Bank (1994c) therefore argues for selectivity and cautions against further expansion of the basic educational system without first addressing the critical issue of improving its quality and bringing Indonesia's rate of educational attainment up towards comparable standards in the region.

45. **Training Policies** — Skill levels have grown in Indonesia's labor force due to general education gains and due to the increased investment in training facilities and various forms of on-the-job training. Skill training is now available through a number of means, including: vocational senior secondary schools, which account for about 1.3 million (or one-third) of senior secondary enrollments; 153 public training centers (BLKs and KLKs) which offer short, specialized courses; numerous privately run programs, largely in general skills training with little capital investments needs (e.g., commercial skills); and some large enterprises that provide training for their workers (World Bank, 1992). A number of polytechnics, established in the mid-1970s, also provide diploma programs for mid-level technicians in engineering and commercial subjects.

46. Despite the large supply of training facilities, demand for training appears to be weak. A recent study (World Bank, 1991a) that focused on employment and training issues in the dynamic export-oriented manufacturing sector found that training activities were weak even in this subsector. The study was based on a survey of 140 enterprises engaged in export-oriented manufacturing. It found that employers did not consider the skill level of their workers to be a problem, reflecting the low skill nature of production.

However, many were concerned about the low quality of products, missed deadlines and wastage, to which poor skills of workers would quite likely be a contributory factor. The study also found that external and internal markets for skilled workers and supervisors were active. Very few skilled workers had received formal pre-career training, and those who did, did so in private training centers. Most skilled workers picked up their skills through experience: over half of the persons sampled reported that they had received no training since starting work. About 30 large firms in capital intensive industry had good training centers, but the relatively low technology, labor-intensive manufacturing industries that were predominant in the sample did not need high levels of skills. Most of the firms, therefore, did not have training facilities, particularly small establishments, which did very little training. Training budgets were tiny. However, off-the-job training appeared to improve workers' productivity as suggested by their enhanced earnings.

47. The key issue in skills training, as in basic education, appears to be one of poor quality rather than limited quantity. Evaluations of public secondary technical schools have pointed to deficiencies in equipment and teaching materials, weak links with industry, and a lack of flexibility in what is a highly centralized system. And with some exceptions, most private vocational secondary schools have inadequate facilities. Assessment of government skills training centers have also found limitations in teachers, equipment and materials, inadequate links with industry, and like technical schools, little autonomy and flexibility in resource use. Private training institutions also suffer from problems of poor quality. Since they are largely financed through student fees, program scope and quality are limited to keeping costs at affordable levels. Courses concentrate on subjects that require relatively little capital investment and are sufficiently general to permit large classes. There is usually little objective information about the quality of these courses to guide individual choices. Finally, most manufacturing enterprises still lack the capacity to provide in-service training themselves. Only a small number of large companies have good quality programs, with diseconomies of scale and lack of resources preventing smaller firms from providing job-specific training.

48. As Indonesia makes the transition during the next decade from a country with a comparative advantage in cheap labor to one in skilled labor, it will need to upgrade and expand its vocational training sector. Such a change, however, will need to be managed carefully due to the inherent difficulties in predicting the pace, direction, and technological level of industrial change. In such an uncertain and changing environment, one of the most crucial features of the skill acquisition system will need to be its responsiveness to the changing skill demands. At the same time, the system will need to provide skills of a quality that is acceptable to trainees and employers. Given that resources available for education and training are necessarily limited, policymakers face important tradeoffs between expenditures on education and expenditures on training. When faced with these choices, it needs to be kept in mind that having a sound basic education is a prerequisite for developing a skilled and flexible workforce. Workers with solid basic skills with words, numbers, and concepts can be readily trained and retrained to meet changing job needs, making effective use of available training. Experience in other countries indicates that greater reliance on training by employers themselves and by private training

institutions can increase the effectiveness and responsiveness of the training system (World Bank, 1991b). Thus, the Government's comparative advantage vis a vis the private sector might lie in providing sound basic education to the population rather than in specific training to the workforce.

## VI.2 Conditions of Work

49. Since the mid-1980s, Indonesia has experienced spectacular growth in the industrial sector. However, according to Kemp (1994), there appears to have been little commensurate activity to ensure adherence to tolerable labor standards, including those related to occupational health, working hours and welfare. Industrialization has brought a proliferation of hazards: mechanical, chemical, biological and ergonomic that were not a feature of traditional life. As of yet, little has been done in Indonesia, in comparison with other ASEAN states, to quantify the effect of working in a factory environment on the physical and psychological health of workers. While the larger corporations have the capital base and the managerial spirit to pursue reforms in the area of occupational health and safety, the majority (70 percent) of Indonesian workers work in domestically owned factories or those which are joint ventures with other East Asian economies, such as Korea or Taiwan, China. These factories are notable for "their poor conditions, harsh management, and excessive hours of work" (Kemp, 1994). These factors are likely to be some of the major reasons underlying the low productivity of workers in the manufacturing sector in Indonesia.

50. The recent World Bank (1994a) study on labor legislation also provided a comparative perspective on the legislation governing minimum labor standards for conditions of work, such as: hours of work, rest period, overtime, annual leave with pay, minimum age of employment, menstrual leave, maternity leave, and bonus and profit sharing in the six countries.<sup>11</sup> It found that Indonesian standards regulating minimum conditions of work are at least as generous as those in the other five APEC countries. In Malaysia, for example, it found that pioneer companies could not negotiate collective agreements that grant better terms and conditions than those provided in the Employment Act. In other words, in Malaysia, the law actually stipulates *maximum* rather than *minimum* conditions of employment in these companies. Another contrast from Indonesia is the U.S., which provides fewer federally-mandated standards. While the various states in the U.S. are free to legislate their own labor standards, in practice most terms and conditions of employment are established by free collective bargaining between labor organizations and employers, or by agreement between individuals and employers if no union has been certified/recognized in that workplace.

51. The reasons for the poor working conditions of the industrial workforce in Indonesia do not appear to lie in inadequate legislation for occupational health, working hours and other conditions of work. Instead, they appear to lie in the difficulties associated with enforcing the centrally-mandated standards. The main problem appears to

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<sup>11</sup> Details of the comparison are contained in Annex Table A5.

be that Indonesian labor laws rely on centralized enforcement systems rather than utilizing workplace delegates as the basis of self-regulation. As discussed in Section VII, this situation is exacerbated by the absence of independent trade unions through which workers' representation and advocacy in disputes concerning labor standards could be underpinned by institutional support and information. Since workers do not have the right to organize and form independent unions, they are unable to legitimately participate in activities which monitor and regulate their working conditions. This results in widespread absence of adherence to the standards for working conditions, and results in poor conditions of work, especially in the industrial sector, and especially for women (Katjasungkana, 1993).

52. The situation for women workers in the industrial sector in Indonesia is particularly troubling. Box 1 below describes the poor and potentially life-threatening living conditions of female workers in a textile factory in Indonesia and illustrates how even large companies in Indonesia can violate labor regulations and agreements (Katjasungkana, 1993). These unsatisfactory conditions of living show a disregard for labor regulations, and were clearly a violation of agreements reached in the KKB (Collective Labor Agreement) between the management and the workers, in which the company had promised to provide adequate housing facilities for its workers. Secondly, the rule in the KKB which obliged all women workers to live in a dormitory, which had facilities appropriate only for single women, stood in direct contradiction to the rule within the same KKB that guarantees maternity leave with pay for all women workers, up to and including the third child. The KKB also discriminated against female workers: the men working for the same company were not required to live in the dormitories.

#### **Box 1: Living Conditions for Women Workers in a Textile Factory**

A large textile factory in the Tangerang area employs some 3000 workers, 70-80 percent of whom are women. The KKB (Collective Labor Agreement) of the factory stipulated that all workers were to reside in the company-maintained asrama (dormitory). The dorm is located within the factory compound. It is guarded by a security depot manned by two security guards who subject the women to searches every time they enter or leave the dorm, even outside working hours. A worker who leaves the dorm without the permission of the dorm supervisor is assumed to have automatically resigned from the company. The workers are kept to a strict curfew: 7 p.m. Sunday through Friday, 10 p.m. on Saturday. The dorm is enclosed by a wall five metres high with a single gate for entry and exit for over 2000 workers, making it likely that in case of a fire, the fatalities will be extremely high. The dorm consists of several blocks divided into 256 rooms measuring 5x7 square metres, each housing between 8 and 10 workers. There are no facilities for receiving visitors.

Source: Katjasungkana (1993).

53. While Indonesia is particularly generous relative to the other countries in laws mandating special leaves for women, such as maternity and menstrual leave, the reality appears to be that women are in most cases disallowed from taking either type of leave. The American Association of Free Labor Institute (AAFLI) in collaboration with SPSI (Indonesia's only Government-sanctioned trade union) interviewed 11,615 workers from non-unionized factories in Java (1992). It found that only 38 percent of women workers were able to take menstruation leave; of them, 11 percent were not paid for the leave while another 12 percent were paid below the daily minimum wage. The Survey also found that of those who applied for maternity leave, only 47 percent received it, and of these, only 12 percent were paid for that leave. There are also ample documented cases of women being fired because of marriage, pregnancy or birth. Thus, while the laws on menstrual and maternity leave provide benefits to some female employees, they also open others to abuse and discrimination by employers. The menstrual leave, for example, has often been used as a means to harass female workers, and could easily be abandoned and replaced by sick leave, as necessary.

54. Poor working conditions not only have a direct effect on costs through lowered worker morale and productivity, but also have an indirect cost through increased labor unrest. In addition to the lack of enforcement of minimum wages, one of the major grievances underlying the increased number of strikes by workers in recent years is their poor working conditions (Manning, 1992). There have been a number of reported abuses of the labor regulations regarding hours worked and overtime rates, especially in the export-oriented factories, which operate intensively at certain times to meet peak orders. The newspaper reports on labor disputes are replete with examples of workers who, on threat of dismissal, are forced to work 12-14 hours a day without adequate overtime compensation. Given this situation, and given that pushing for further increases in minimum wages would most likely erode competitiveness and reduce employment, it would seem prudent for those concerned with the plight of workers to press for reforms in areas in which workers face the greatest hardship and abuse, and in which changes will not substantially increase labor costs but will have the potential to raise labor productivity. Such areas include effective worker representation, worker safety, and the quality of the work environment. Making employers aware of potential "efficiency wage" effects -- the impact of better wages, working conditions and overall systems of labor management on labor productivity-- can also have an important effect on labor's welfare.

## **VII. POLICIES AFFECTING THE INDUSTRIAL RELATIONS CLIMATE**

55. The early 1990s have seen a marked increase in labor unrest in Indonesia, principally in the centers of manufacturing export activity. An important reason for this unrest is the rising expectations of workers for an improvement in their welfare, combined with the unenforceability of, and resulting non-compliance with, the centrally-mandated benefits, such as higher minimum wages and the new all-encompassing social security system. Enforceability of Government-mandated benefits is likely to be weak in most

developing countries; in Indonesia, this problem is exacerbated by the absence of independent unions to represent workers. An additional problem is that the legal and regulatory framework does not provide for effective dispute resolution mechanisms between employers and employees, making strikes the only way for workers to air their grievances. This Section examines the Government's policies and procedures governing the industrial relations system in Indonesia, and the implications of these policies for peaceful labor relations.

## **VII.1 Regulation of Unions**

**56. Freedom of Association, Formation of Independent Workers' Organizations, and Collective Bargaining --** A comparison of the legislation governing the formation and operation of labor unions in six APEC countries shows that Indonesian laws do indeed restrict the ability of workers' organizations at the plant level to effectively represent workers to management (World Bank, 1994a).<sup>12</sup> The Indonesian Constitution says that the "freedom of association and assembly" shall be prescribed by statute. There are two such laws that clearly guarantee the right to form unions.<sup>13</sup> Despite these laws, however, setting up unions in Indonesia is not easy, and there is only one legally-recognized union in the private sector--the SPSI (All Indonesia Workers Union)--which, for all practical purposes, is essentially a tightly-controlled Government institution. The ineffectiveness of SPSI is reflected in the fact that unionization rates in Indonesia are amongst the lowest in the world (see Table 15); these rates would probably rise if workers had more effective unions to choose from.

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<sup>12</sup> Details of the comparison are contained in Annex Table A6.

<sup>13</sup> The first is Law No. 18 of 1956, which made the ILO Convention No. 98, on the Right to Organize and Bargain Collectively, a law. The second is the Basic Law No. 14 of 1969, which explicitly grants "the right to set up and to become a member of a manpower union".



**Table 15: Union Membership as Percent of Non-Agricultural Work Force  
in Middle-Income Economies**

<b>Union Density</b>	<b>Upper Middle Income Countries</b>	<b>Lower Middle Income Countries</b>
>50 percent	Israel, Brazil	Colombia, Egypt, Jordan
40-50 percent		Congo, El Salvador, Morocco
30-40 percent	Argentina, Libya	Jamaica, Guatemala, Honduras
20-30 percent	Trinidad, Uruguay, Venezuela, and Taiwan, China	Bolivia, Costa Rica, Syria
10-20 percent	Hong Kong, Malaysia, Mexico, South Africa, Singapore, Korea, Panama	Tunisia, Paraguay, Papua New Guinea, Chile, Nigeria, Zimbabwe, Dominican Republic, Peru, Ecuador, Lesotho, Philippines
5-10 percent	Puerto Rico	Botswana, Mauritania, Turkey
<5 percent	Oman, Saudi Arabia	Indonesia, Thailand

Source: Freeman (1993).

57. The lack of genuine representation of workers and of effective collective bargaining at the plant level in Indonesia is attributed, in part, to Government regulations which make it impossible to set up alternate legal worker organizations to the SPSI. The Government has recently brought out new regulations in an attempt to address some of these criticisms. However, Government decrees essentially prevent the formation of independent unions. While workers in the private sector, including those in export-processing zones, are free to form worker organizations or company level unions, only registered unions can negotiate binding collective labor agreements with employers. In February 1993, a new regulation eased the organizational requirements for a union to receive recognition from the Department of Manpower. Yet the conditions for recognition are still considered to be rather restrictive.

58. While Indonesian law clearly guarantees the right to form unions, the World Bank study (1994a) on comparative labor legislation found that difficulties arise in Indonesia in how the unions are regulated and how they are allowed to operate in practice. The study found that of the six countries, Chilean and U.S. laws are more favorable to genuine plant level collective bargaining by independent worker organizations. In the other four countries, various regulations prevent this from happening effectively. For example, in the case of Indonesia and Malaysia, while plant level collective bargaining is legally permitted, it is restricted in practice by preventing plant level unions from becoming legal organizations. Another example of regulations that prevent genuine plant level collective bargaining is the imposition of *contrato-ley* type contracts (or industry-wide collective contracts) by the Governments of Mexico, Korea and Indonesia. In another recent study focusing on labor relations in six economies of East Asia, Freeman (1993) notes that "the seemingly innocuous procedure for registering trade unions is a powerful tool for repression".<sup>14</sup> He found that some of the regimes in East Asia had used this tool to direct workers into acceptable unions and to make other unions unacceptable.

59. **The Resolution of Disputes in the Context of Collective Negotiations and the Right to Strike** -- Restrictions on the right to strike, apparent inefficiencies and delays in the process of resolving disputes between workers and employers, and the intervention of the military in labor affairs, further undermine the ability of Indonesian workers to organize and act collectively. The procedure for resolving disputes arising in the process of collective bargaining is provided in *Act 22 of 1957 on the Settlement of Labor Disputes*. This Act was promulgated to limit strikes and lock-outs and in effect also establishes compulsory arbitration. In response to the recent criticisms, three Ministerial Decrees on the implementation of the Act were repealed and replaced with a new Ministerial Decree in January 1994.

60. The Indonesian Law provides for elaborate dispute resolution procedures and for the right to strike, if conciliation fails or if employers refuse to negotiate. In practice, however, there are several problems which in effect limit the ability of workers to negotiate with employers. First, the law assumes that workers will be adequately represented in disputes by unions, which does not appear to be the case. Second, the process of dispute settlement and mediation is often subject to delays. Third, the independence of various bodies involved in the mediation process, such as the Labor Tribunal and the Central Committee, is questionable. Fourth, the procedure, in effect, sets up compulsory arbitration. Fifth, the right to strike is severely limited. Sixth, and finally, the military is often involved to some degree or the other in the labor disputes.

61. Labor unrest in Indonesia can be attributed, at least in part, to the problems listed above with the dispute settlement mechanisms and to the lack of confidence of workers in the SPSI as true representatives of workers at the firm level. Workers typically by-pass the normal industrial relations procedures and seek assistance from the national or regional parliaments or from NGOs such as the Legal Aid Institute. Because strikes are permitted

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<sup>14</sup> The economies in Freeman's study are Korea, Singapore, Hong Kong, Malaysia, Japan, and Taiwan, China.

only within a restricted set of circumstances that seldom apply, most strikes that do take place are illegal. Employers are also known to use the Ministerial Regulation No. 4 (1986), which permits them to dismiss workers if they are absent for six consecutive days, to justify dismissal of striking workers.

62. The World Bank (1994a) study on labor legislation also provided a comparative perspective on legislation governing dispute resolution procedures and the right to strike in the six APEC countries.<sup>15</sup> It showed that Indonesian laws in this area are very restrictive and, in many ways, very similar to those in Malaysia and, to a lesser extent, in Korea. In Malaysia also, the right to strike is very restricted and in fact, the Minister of Labor has substantial powers to intervene in the dispute resolution process and may impose compulsory arbitration through the Industrial Court. Furthermore, in Malaysia, the arbitration procedure in the Industrial Court is reported to be slow and protracted. Korean laws also similarly set out elaborate dispute resolution mechanisms and the laws on strikes resemble those of Indonesia and Malaysia. In contrast, workers in the three countries on the American continent--the U.S., Chile and Mexico--are less restricted in their right to strike and have access to better dispute resolution mechanisms. The labor codes of the three American countries are also more specific on the liabilities of workers in case of strikes.

63. More specifically, the three East Asian countries in the study were found to restrict the right to strike in several ways: through requiring notification of a strike and a cooling-off period; restricting the subjects over which strikes are legal; and by suspending the right to strike under various circumstances. In Indonesia and Malaysia, conciliation by a Ministry of Labor official typically occurs even before a strike is anticipated, and can lead to a process which is compulsory and in which decisions are binding. The right to strike is much less restricted in the three American countries, even though, for example, Chilean legislation does not permit sympathy strikes and Mexican law establishes a cooling-off period in strikes. Collective bargaining contracts typically establish processes for the resolution of disputes in the U.S. and frequently provide for arbitration, a procedure which has worked rather successfully in the U.S., in contrast to Latin American countries. What is extremely interesting to note is that although it is easier to go on strike in the three countries on the American continent, the number of strikes that occur there is actually quite small, partly due to the availability of effective dispute resolution mechanisms. For example, the number of strikes as a proportion of contract negotiations was only 2.5 percent in 1990 in the U.S., and only 4 percent in 1991/92 in Chile. This is important to note for a country like Indonesia where the number of strikes is increasing rapidly, despite very restrictive regulations governing the right to strike, because of the lack of effective dispute resolution mechanisms.

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<sup>15</sup> Details of the comparison are provided in Annex Table A7.

## VII.2 Union Regulations and the Industrial Relations Climate

64. Labor unrest in Indonesia has increased in the 1990s. The number of strikes during the four year period 1989-92 went up thirteen-fold from 19 to 251 (see Table 16). During this period, the number of strikers also increased dramatically: it went up more than a hundred-fold from 1,168 strikers to 143,005 strikers (i.e., from 0.4 strikers to 5.2 strikers per 1,000 non-agricultural workers). Most importantly, the economic loss from these strikes, as measured in the number of working days lost, increased the fastest (over 35-fold): from about twenty-nine thousand hours in 1989 to over a million hours in 1992. The rapid increase in the number of strikers involved and the amount of work-hours lost is a cause for concern.

**Table 16: Number and Nature of Strikes in Indonesia, 1989-1992**

Year	No. of Strikes	No. of Strikers	No. of Work-Hours Lost	No. of Strikers per 1,000 Non-Agricultural Workers	% of all Strikes in Manufacturing
1989	19	1,168	29,257	0.4	68
1990	61	27,839	229,959	0.8	89
1991	130	64,474	534,610	1.8	96
1992	251	143,005	1,019,654	5.2	na

Source: Republic of Indonesia (1994b) and staff estimates.

65. This pattern of increasing labor unrest in Indonesia in the 1990s is a change from past trends (Table 17). During the 25-year period, mid-1960s to 1990, Indonesia had one of the smallest number of strikes and strikers (as a share of its non-agricultural work-force) as compared with other countries in the region. Industrial unrest remained high in the Philippines over the entire period, and grew dramatically worse in Korea in the second half of the 1980s. In Thailand and Malaysia, by comparison, the industrial relations climate seems to have improved considerably, especially during the second half of the 1980s.

**Table 17: Comparison of Strikes in South-East Asia, 1966-1990**  
(average per annum)

	Indonesia	Thailand	Philippines	Malaysia	Korea
<b>No. of Strikes</b>					
1966-70	2	15	108	55	11
1976-80	66	49	54	40	104
1986-90	46	9	333	13	1,541
<b>No. of Strikers per 1,000 Non-Agricultural Workers</b>					
1966-70	0.0	0.5	9.8	10.3	4.1
1976-80	0.6	3.6	4.8	3.8	2.3
1986-90	0.2	0.3	9.3	0.7	28.5
<b>% of Strikers in Manufacturing</b>					
1966-70	1	26	40	12	47
1976-80	89	79	33	61	85
1986-90	82 (a)	99	55	28	46
<b>Total Non-Agricultural Workforce (millions)</b>					
1986-90	32	9	11	4	13

(a) % of strikes (not strikers).

Source: Manning (1993b).

66. It is not just the increasing number of strikes that has drawn public attention but also the fact that many of these strikes occurred in export-oriented zones close to Jakarta, especially Tangerang and Bekasi, where foreign capital plays a major role. Summaries of the 47 major strikes reported in the major national newspapers in 1991 indicate the following pattern: just over half of all strikes occurred in the labor-intensive textile, clothing and footwear sectors; almost all of these took place in Jakarta and the surrounding areas (Jabotabek), which accounted for over 70 percent of all strikes; close to half the strikes occurred in establishments with 500 workers or more; and finally, a few of the strikes involved thousands of workers and extended over several days (Manning, 1993b).

67. What have been the major worker grievances? Unlike a decade earlier when dismissals were a major reason for labor disputes, concern with wages and working conditions have been the main cause of recent unrest. These strikes have primarily been associated with lack of compliance with the minimum wage legislation introduced in 1990-91 and with unsatisfactory working conditions (Manning, 1993b). The reason for the increase in strikes since 1991 is not that conditions deteriorated visibly in 1991, but that

public awareness of the gap between minimum physical needs (KPM) and minimum wages increased. In addition, with the passage of legislation, the Ministry of Manpower started to give greater emphasis to the enforcement of the regional minimum wages. Added to this was a range of abuses of labor law regulations regarding hours worked and overtime rates, especially in the export-oriented factories.

68. The reason why worker dissatisfaction with wages and working conditions has led to an increase in strikes can be attributed in part to the inability of workers to engage in productive negotiations with employers, stemming from a lack of confidence in unions and in the dispute resolution process. In particular, one can attribute the spread of labor protests and strikes to the failure of the officially sanctioned trade union movement, the SPSI, to represent workers' rights and to negotiate more favorable work conditions. Most of the labor unrest has occurred independently of union presence at the plant level. Few strikes or protests have been initiated by unions, many of which are headed at plant level by personnel managers or other managerial staff (Manning, 1992). In the absence of adequate dispute resolution mechanisms, wildcat strikes and walkouts remain as one of the limited options available to workers to engage in productive negotiations with employers.

69. Indonesia is under pressure, both internally and externally, to ease restrictions on unions. In considering future policy, it would be important to consider that effective, democratic, plant level worker organizations, by providing "voice" at the workplace, may be able to play a positive role and reduce some of the costs associated with worker unrest. Legislation encouraging collective bargaining at the enterprise level could enable workers and managers to negotiate outcomes that might be able to enhance workers' productivity. Improving the dispute resolution mechanism and the ability of the workers to be heard can reduce the incidence of illegal or wildcat strikes. What would be needed, however, would be more than legislative changes. In order to move to a mutually beneficial industrial relations system, appropriate and responsible changes in behavior from employers and workers would also be required. Careful changes in legislation, industrial relations practices, and increased deregulation and competition in product markets could improve the positive role that unions can play while controlling their "negative" role.

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## **ANNEX TABLES A1-A7**

**Table A1: MINIMUM WAGE LEGISLATION**

	<b>Minimum Wage Established by Law?</b>	<b>Monthly / Daily / Hourly Wage?</b>
<b>Indonesia</b>	Yes (early 1970's)	Daily wage based on a 7 hour workday and 40 hour workweek.
<b>Malaysia</b>	No (Historically some minimum wage fixing for special categories such as shop assistants, cinema workers etc. which is now redundant for all practical purposes).	Not applicable
<b>Korea</b>	Yes (Since 1988; law was passed on Dec 31, 1986).	Hourly. Also determined on the basis of a day, week or month but in these cases is also noted by an hourly wage.
<b>Chile</b>	Yes	Monthly
<b>Mexico</b>	Yes	Daily
<b>United States</b>	Yes under Fair labor Standards Act (FSLA, 1938). Applies to covered enterprises which have employees producing, or otherwise handling/selling/working on, goods for interstate commerce. States may set higher minimum wages.	Hourly

Table A1: MINIMUM WAGE LEGISLATION (Contd.)

	Specified nominally or relative to some other wage/price index?	Includes the value of Non-Wage Benefits?
<b>Indonesia</b>	Adjusted according to Consumer Price Index (CPI). Specified separately by regions & sectors/subsectors. Reviewed regularly in recent years. Proposal from regional (tripartite) wage boards to go through heads of local government to Minister of Labor. Based on minimum physical needs (KFM), cost of living and labor market conditions.	No. Includes basic wage and fixed allowances received in the form of money excluding incentive allowances.
<b>Malaysia</b>	Not Applicable	Not Applicable
<b>Korea</b>	Nominal. A national minimum wage is determined according to category of industry, once a year, by deliberations between Minister of Labor and Minimum Wage Council (tripartite). Based on cost-of-living, productivity, similar prevailing wages.	Not typically. But definition of "wage" in law is "money and goods paid to worker by employer in the form of wage, salary or other goods for labor service offered by worker." Wages regarded as inappropriate for inclusion may be defined by Minister of Labor.
<b>Chile</b>	Nominal. Based on a tripartite agreement, wages are adjusted as per the projected CPI and productivity.	No
<b>Mexico</b>	Determined annually by geographic zone and by occupation by a tripartite National Commission. Takes into account for each family satisfaction of material, social and cultural needs and to provide for mandatory education of children and condition of occupation.	No
<b>United States</b>	Nominal. In setting and adjusting the minimum wage, consideration is given to views of all segments of economy, including workers' & employers' organizations in open hearings in Senate and House. Since 1938, adjustments were made effective in: 1949, 55, 61, 63, 67, 68, 74, 75, 76, 78, 79, 80, 81, 90, 91.	Reasonable cost or fair value of board, lodging, or other facilities customarily furnished by the employer for the employee's benefit may be considered part of wages unless excluded under the terms of a bona fide collective bargaining agreement.

Table A1: MINIMUM WAGE LEGISLATION (Cont'd)

	Ratio of Current Minimum Wage to average Manufacturing Wage*	Coverage
<b>Indonesia</b>	0.51 in Jakarta in Nov 1991. Slightly higher ratio likely for 1994.	All industrial workers regardless of employment status. Includes contract/unit/piece workers, probationary workers and apprentices.
<b>Malaysia</b>	Not Applicable	Not Applicable
<b>Korea</b>	0.25 (estimate for 1993).	All businesses/workplaces with at least 5 permanent workers except only family/domestic workers. The minimum wage may apply to some places with less than 5 permanent workers and is determined separately for workers below the age of 18, with less than 6 months work, and for piece work workers etc. by Presidential Decree. It does not apply to workers on probation, training, or to handicapped workers.
<b>Chile</b>	0.2 (estimate).	100%
<b>Mexico</b>	1990: 0.13 of average unskilled manufacturing wages (as computed from firm level data). Estimates from household level data are higher.	Includes piece-rate and other workers.
<b>United States</b>	0.45-0.5 until April 1990; 0.38 in 1991.	All businesses with annual gross volume of sales/ business of at least \$500,000. Employees of firms not covered may also be subject to FLSA minimum wage if they are individuals engaged in interstate commerce. Domestic workers are included. Exemptions are narrowly defined. Subminimum wages are certified by the Department Of Labor for handicapped workers, trainees, students, etc.

\*Approximate estimates. For Indonesia this is based on available published statistics, Chile and Korea from Embassy Economic Units. Mexico, Bell 1994. Must be interpreted cautiously because of different sources.

**Table A2: OLD AGE, DISABILITY AND DEATH PROGRAMS**

	Type of System	Coverage
<b>Indonesia</b>	Provident Fund System (lump-sum, periodical and partial lump-sum benefits)	Establishments with 10 or more employees or a payroll of at least 1 million Rupiah a month and those already on earlier scheme. Coverage is being extended gradually to smaller establishments and to casual or seasonal workers. Voluntary coverage is available.
<b>Malaysia</b>	Dual provident fund (lump-sum benefits only) and social insurance systems (disability only)	<u>Provident Fund</u> : employed workers. Teachers and members of armed forces in equivalent private plans are excluded. Voluntary coverage for domestics. <u>Disability pension</u> : employees earning less than M\$2000 a month (or when first covered), casual workers and domestics. Voluntary for those earning more than M\$2000 a month if employer and employee agree.
<b>Korea</b>	Social Insurance System	Korean nationals 18-59 living in Korea, employed in firms with at least 5 workers. Voluntary coverage for smaller firms and self-employed. Private school teachers have separate systems (as do public employees, military personnel)
<b>Chile (new system, 1980,81)</b>	Mandatory Private Insurance	Mandatory coverage for wage and salary workers. Voluntary coverage for self-employed.
<b>Mexico</b>	Social Insurance System	Employees, members of producers', agricultural, and credit union cooperatives. Coverage is being extended gradually to rural areas. Coverage to be extended by decree to agricultural workers, small businesses, forestry, industrial cooperatives, self-employed, family workers, domestics. Voluntary coverage is available. System of Saving for Retirement (SAR) is mandatory for all employees, and members of agricultural and credit union cooperatives.
<b>United States</b>	Social Insurance System	Gainfully occupied persons, including self-employed. Exclusions: casual agricultural and domestic employment, limited self-employment (annual net income less than \$400) and some Federal employees hired before 1984. Voluntary coverage for State, Local Government employees covered elsewhere, otherwise mandatory.

**Table A2: OLD AGE, DISABILITY AND DEATH PROGRAMS  
(Cont'd)**

	Source of Funds	Qualifying Conditions
<b>Indonesia</b>	Insured person: 2% of earnings; Employer: 3.7% of payroll (plus 0.3% of payroll for death benefit). Government: none.	<u>Old Age Benefit</u> : Age 55 or retirement. May be paid before 55 under certain circumstances. <u>Disability</u> : Total incapacity for work and under 55. Benefits may be paid to spouse or orphan children in case of death. Payable lump-sum, periodical or partly lump-sum.
<b>Malaysia</b>	Insured Person: 10% of earnings according to 306 wage classes for provident fund; disability insurance, approximately 0.5% of earnings according to 24 wage classes. Employer: 12% of payroll according to wage class for provident fund. For disability insurance, approx 0.5% by wage class. Government: none.	<u>Old Age</u> : Age 55 & retirement from employment. <u>Disability</u> : provident fund-permanently incapacitated before 55 with 2/3 loss of earning capacity, disability pension-24 months of contribution in the last 40 months or in 2/3 of months since entry into insurance with minimum of 24 months (reduced pension if contributions in 1/3 months with minimum of 24). <u>Survivors Benefits</u> : provident fund: nomination as beneficiary by insured. Survivor pension: death occurs while in receipt of disability pension on or before age 55. Death benefit: Insured was under age 60 at death.
<b>Korea</b>	Insured person: 2% of earnings in 1993, rising to 3% in 1998; self-employed, 6% of earnings in 1993 rising to 9% in 1998. Employer: 2% of payroll, rising to 3% in 1988. Government: Administrative costs.	<u>Old-Age pension</u> : Aged 60, insured 20 or more years. Reduced if age 60-64 and still working; if aged 60 or more and insured for 15-19 years; aged 55-59 and insured for 20 or more years; aged 45-59 on 1/1/88 and insured for 5 years after that date. <u>Disability</u> pension: Insured at least 1 year, not working. <u>Survivor</u> pension spouse/child/parent, of insured (insured at least 1 year) or pensioner. Lump Sum refund if insured has less than 15 years coverage, if requested
<b>Chile (new system, 1980,81)</b>	Insured Person: old-age-minimum 10% of wage or salary. Disability and survivor-approx 3.3% depending on pension fund administrator. Employer: None. Government: Special subsidies for guaranteed minimum provision. Maximum earnings (adjusted monthly to changes in the consumer price index) are established for contribution purposes.	<u>Old age</u> : men age 65, women age 60. 20 years contribution for new entrants. Early retirement permitted if pension at least 50% of average wage over last 10 years and is at least equal to 110% of minimum old-age pension. <u>Disability</u> : loss of 2/3 capacity to work. Partial disability payable if 1/2-2/3 loss of capacity. <u>Survivor</u> : deceased was covered or was pensioner at death.
<b>Mexico</b>	Insured person: 1.85% of average earnings. Employer: 5.18% of payroll. Government: 0.3% of payroll for most workers. System of Saving for Retirement (SAR): Employee: voluntary, Employer: 2% of payroll. Additional 5% up to 10 times of minimum wage to help finance housing. Government: none.	<u>Old age</u> pension: Age 65, fractions of pension for age 60-64 if involuntarily unemployed. 500 weeks of contribution. Retirement from employment not necessary if new job is with different employer and after 6 month waiting period. <u>SAR</u> : Age 65, eligible for social security pension or upon receipt of employer provided pension. Unemployed may withdraw upto 10% of savings, other specific withdrawals permitted. <u>Disability</u> : 50% reduction in usual earnings capacity. 150 weeks of contribution. <u>Survivor</u> : Deceased was pensioner or had 150 weeks of contribution at death. For funeral grant: 12 weeks of contribution in last 9 months or pensioner at death.



**Table A2: OLD AGE, DISABILITY AND DEATH PROGRAMS**  
(Cont'd)

<b>United States</b>	Insured person: 6.2% of earnings, Self employed: 12.4%; Employer 6.2% of payroll; Government: Cost of special monthly old-age benefits for persons aged 72 before 1968; whole cost of means tested allowance. Maximum earnings for contribution and benefit purposes established.	<u>Old age</u> 65 (62-64 with reduction); gradually increasing to 67 over 2000-27. Insured: 40 quarters of coverage (QC). Pension reduced for high earnings depending on age and earnings. <u>Disability</u> pension: (disabled at least 1 year): insured : 1 QC for each year since age 21, upto year disability began; maximum 40 Qcs. Also 20 QC in 10 year period before disability began. More liberal requirement for young and blind. <u>Survivor</u> pension : Deceased was pensioner or had 1 QC for each year since age 21 and before the year of death; maximum 40 Qcs. Reduced requirements for orphans and non-age widow with eligible orphan.
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**Table A2: OLD AGE, DISABILITY AND DEATH PROGRAMS**  
(Cont'd)

	<b>Benefits</b>	<b>Administrative Organization</b>
<b>Indonesia</b>	Total employee and employer contributions paid in, plus accrued interest	Ministry of Manpower-- general supervision. Public Corporation for Employees Social Security-- administration and operation of program
<b>Malaysia</b>	<u>Old Age</u> : contribution defined lump sum. Employee entitled to 1/3 of benefit at age 50 without retirement, receives remainder at age 55. Housing withdrawals specified & permitted. <u>Permanent Disability</u> : Pension-50% of earnings plus 1% for each 12 months of contribution over 24 months. Maximum (65% earnings) and minimum pensions (M\$171.43 per month) are established. Maximum earnings M\$2000 a month for disability benefit purposes. Disability Provident Fund-contribution defined lump sum if ineligible for pension and permanently incapacitated. <u>Survivor</u> pension- percent of actual or potential disability pension of the deceased depending on who survives upto maximum of 100%. <u>provident fund</u> contribution defined lumpsum payable to nominated survivors or legal heirs. Contribution defined death benefit. Funeral grant is M\$1000.	Ministries of Finance and Human Resources, general supervision. Social Security Organization and Employees Provident Fund -- administration of program; managed by tripartite governing board.
<b>Korea</b>	<u>Old Age</u> : 2.4 times the sum of average monthly earnings of all insured persons in previous year and the average monthly earnings of retiree over entire contribution period. For each insured year more than 20, the monthly benefit amount is increased by 5%. <u>Permanent Disability</u> : Total disability-- same as old age calculation. Partial disability-- reduced by upto 40%. <u>Survivor</u> : percent of pension, varying with years of contribution.	National Pension Corporation, under supervision of Ministry of Health and Social Affairs
<b>Chile (new system, 1980,81)</b>	<u>Old-age</u> : Contribution defined benefits. Minimum pension (85% of minimum wage) guaranteed by government. At retirement insured may make withdrawals from account, regulated to guarantee income for expected life-span or buy annuity from private insurance company or a combination of the two. <u>Disability</u> : same as old age pension, minimum pension guaranteed by Government. <u>Survivor</u> : percent of pension varying with conditions of survivor(s) (widow/orphan etc.).	Superintendent of Pension Fund Management Companies-- general supervision; individual pension fund management companies-- administration of individual capitalization accounts.

**Table A2: OLD AGE, DISABILITY AND DEATH PROGRAMS  
(Cont'd)**

<b>Mexico</b>	<p><u>Old age</u> (new formula): Benefit amount based on multiples of minimum wage in the Federal District (1 to 6 times minimum wage); increases by 25% of minimum wage with average earnings and length of coverage. <u>SAR</u>: contributions made to a special account for the employee. Investment must yield at least 2% real return after commission and charges. Benefit may be paid as a lump sum or used to purchase annuity. <u>Disability</u>: same as old age pension including for the SAR. <u>Survivor</u>: percent of pension varying with condition of survivor (s). <u>SAR</u>: same as for old age pension. Maximum and minimum survivor pensions are defined. Funeral grant is two months minimum wage in Federal District. Christmas bonus: one month pension.</p>	<p>Ministry of Labor and Social Welfare-- general supervision. Mexican Social Insurance Institute-- program administration through regional and local boards in areas which coverage extended. Managed by General Assembly, Technical Council, Oversight Commission, &amp; Director-General. <u>SAR</u>: Mexican Social Security Institute, program administered through SAR Technical Community</p>
<b>United States</b>	<p><u>Old age</u>: Based on covered earnings averaged over period after 1950 (or age 21, if later) upto age 62 or death excluding the 5 years of lowest earnings. Available at age 62, but reduced for each month of receipt prior to 62. No minimum benefit for workers reaching age 62 after 1981. Monthly maximum for workers retiring at age 65 in 1993. Increment for each month that worker delays retirement at ages 65-69; amount depends on when worker reached age 62. Automatic cost of living adjustment and dependents' allowances are defined. Maximum: family pensions are defined. A means-tested allowance is payable to needy under separate Supplemental Security Income (SSI) program. <u>Disability</u> pension: similar to old-age pension. <u>Survivor</u> pension: Percent of pension depending on age and conditions of survivors. Means tested allowance payable under Federal-State program to needy orphans.</p>	<p>Department of Health &amp; Human Services-- general supervision. Social Security Administration-- in Department administration of program through regional program centers, district offices, and branch offices. Treasury Department-- collection of Social Security taxes through Internal Revenue Service, payment of benefits and management of funds</p>

**Table A4: WORK INJURY PROGRAMS**

	Type of System	Coverage	Source of Funds
<b>Indonesia</b>	Social Insurance Program	Social insurance program: Establishments with 10 or more employees or a payroll of more than 1 million Rupiah. Coverage being extended gradually to smaller establishments. Voluntary coverage available.	Insured person: None. Employer: 0.24% to 1.74% of payroll, according to risk in industry. Government: none.
<b>Malaysia</b>	Social Insurance System	Employees earning less than M\$2,000 a month (or when first covered, or voluntary agreement by employer and employee), self-employed, casual workers and domestic servants.	Insured person: none. Employer: 1.25% of payroll according to 24 wage classes. Government: none.
<b>Korea</b>	Compulsory insurance with public carrier.	Employees of industrial firms with 5 or more workers.	Insured person: none. Employer: 0.5% to 33.5% of payroll, according to risk in industry (average 2.21%). Government: costs of administration.
<b>Chile</b>	Social Insurance System.	Employed persons, government workers, students, and some self-employed persons.	Insurance person: none except if self-employed. Employer: 0.9% of payroll, plus 3.4%-6.8% of payroll according to industry and risk (for wage earners and salaried employees). Employers may contract out of system by offering equal or improved benefits. Government: none for private sector.
<b>Mexico</b>	Social Insurance System	See old age pension.	Insured person: none. Employer: 0.875 to 8.75% of payroll, according to risk; average rate 4.42% of payroll. Government: none. Maximum and minimum earnings are established for contribution and benefits purposes. Special system of rates and benefits for self-employed.
<b>United States</b>	Compulsory (elective in 3 states) insurance through public or private carrier (according to state) or self-insurance.	Employees in industry and commerce generally, and most public employees. Exclusions: agricultural employees (1/5th states); domestics (1/2 states); casual employees (3/5 states); employees of firms with fewer than 3-5 employees (1/6 states). Coverage compulsory except in 3 states.	Insured person: Nominal contributions in few states. Employer: whole cost in most states and most of cost in others, through either insurance premiums varying with risk or self-insurance. Average cost in 1991 about 2.4% of payroll. Costs of pneumoconiosis benefits for persons coming on rolls after 1973. Government: none. Whole costs of pneumoconiosis benefits for persons on rolls before 1974.

**Table A4: WORK INJURY PROGRAMS**  
(Cont'd)

	Qualifying Conditions	Benefits	Administrative Organization
<b>Indonesia</b>	Partial or total disablement before age 55. No minimum qualifying period.	<u>Temporary Disability benefits</u> : 100% of earnings for first 4 months, 50% after. <u>Permanent Disability</u> : varies with disability degree. Maximum 70% of previous monthly earnings times 60. Death: funeral costs plus cash benefit. <u>Workers medical benefits</u> : medical treatment, hospital care, medicines, 100,000-200,000 Rupiah for transportation, medical costs up to 3 million Rupiah.	Minister of Manpower-- general supervision. Public Corporation for Employees Social Security-- administration and operation of program.
<b>Malaysia</b>	No minimum qualifying period.	<u>Temporary Disability</u> : 80% of earnings. Daily minimum. <u>Permanent Disability</u> pension: 90% of earnings if total disability. Daily minimum. Constant attendance supplied up to maximum. Partial disability: proportion of full pension with degree of disability. <u>Workers Medical</u> : medical treatment, hospitalization, medicines (government hospital and contracted doctors). <u>Survivor</u> : pension and funeral costs.	Ministry of Human Resources-- general supervision. Social Security Organization-- administration of work-injury program; managed by tripartite governing board.
<b>Korea</b>	No minimum qualifying period.	<u>Temporary Disability</u> : 70% of average earnings up to 24 months. <u>Permanent disability</u> : Total disability- annual pension equal to 138-329 days average earnings. Partial disability- lump sum equal to 55-1,474 days earnings according to degree of disability. <u>Workers Medical</u> : free treatment, surgery, hospitalization, medicines, etc. transportation, rehabilitation. <u>Survivor</u> : lump sum equal to 1300 days average earnings payable to surviving family plus pension defined as percent of annual earnings according to number of people. Funeral grant: 120 days average earnings.	Ministry of Labor Affairs-- general supervision.
<b>Chile</b>	No minimum qualifying period.	<u>Temporary Disability</u> : same as under cash sickness benefit (up to 52 weeks, may extend to 104 weeks). <u>Permanent disability</u> : pension: total--70% of base wage. Constant attendance supplement. Partial: 35% base wage. Lump sum grant up to 15 months base wage for less disability. <u>Workers medical</u> : medicine, rehabilitation, occupational training. <u>Survivor</u> : percent of pension depending on survivor. Funeral grant is 3 times monthly minimum wage.	Ministry of Labor and Social Welfare-- general supervision. Administration of contributions and cash benefits through Social Insurance Service, Private Salaried Employees' Welfare Fund, and other social security funds, and employers' non profit mutual insurance group. National Health Service-- provision of medical benefits.

**Table A4: WORK INJURY PROGRAMS  
(Cont'd)**

<b>Mexico</b>	No minimum qualifying period.	<u>Temporary Disability</u> : 100% of average earnings up to maximum. <u>Permanent disability</u> : pension—70% of earnings. Christmas bonus: 1 month's pension. Adjusted with minimum wage. Partial disability: percent of pension varying with amount of disability. <u>Workers medical</u> : full medical, surgical, hospital, medicines, etc. Christmas bonus: 1 month's pension. <u>Survivor pension</u> : percent of total disability pension of insured upto 100% depending on survivor. Christmas bonus: 1 month's pension. Minimum pension is same as old age pension. Funeral grant: two months minimum wage; pension adjusted in proportion to minimum wage in Federal District.	Ministry of Labor and Social Welfare—general supervision. Mexican Social Insurance Institution— administration of contributions and benefits through regional and local boards.
<b>United States</b>	No minimum qualifying period.	<u>Temporary Disability</u> : 2/3 of earnings in most states. Maximum benefit according to state; Payable if injury lasts 3 days - 6 weeks. Additional variation in benefits with state. <u>Permanent disability</u> : total-2/3 of earnings in most states. Defined monthly benefit for pneumoconiosis. Maximum weekly pension according to state. Payable for life or throughout disability in 4/5 of the states. Partial disability- proportional to loss. <u>Worker's medical</u> care provided as long as required in all states. Survivor Benefits: pension-percent of earnings depending on who survives. Defined benefits for pneumoconiosis. Maximum pension defined. Lumpsum funeral grant according to State.	Program administered by State worker's compensation agencies, in about 1/2 of states; State Departments of Labor in about 3/8; courts in 3 States; pneumoconiosis: federal government and state. 1/3 States have government workers' compensation fund; Employers must insure with State Fund in 6 States; may insure with State or private carrier in 14 States; and may insure with private carrier in remainder. Most States allow self-insurance.

**Table A5: LABOR STANDARDS FOR WORKING CONDITIONS**

	<b>Hours of Work</b>	<b>Rest Period</b>	<b>Overtime</b>
<b>Indonesia</b>	Maximum 7 hours a day or 40 hours a week. May be extended to 9 hours a day, 54 hours a week with overtime pay.	At least 1/2 hour rest after 4 successive hours of work. 1 day rest a week. May also change to 2 rest days a week under 8 hour workdays with agreement from workers.	1.5 times wages per hour for the first overtime hour. Twice wage per hour for every overtime work of the following days. Separate rates for holidays. Pregnant and young workers may not be hired overtime.
<b>Malaysia</b>	No worker should work more than 8 hours a day, in excess of a spread over period of 10 hours per day, more than 48 hours per week. By mutual agreement can increase to 9 hours a day up to 48 hours per week maximum. Law stipulates maximums for piece rate, etc. (12 hours per day).	At least 1/2 hour rest after 5 consecutive hours. If 8 continuous hours required, must get at least 45 minutes for meals and recreation. At least one day rest per week.	Work on rest day: if work is for less than 1/2 normal hours, 1 days wage at ordinary rate; if work is more than 1/2 but less than 1 full day's normal hours, 2 days wages at normal rate. For monthly salaried workers rates of pay are 1/2 and full days pay respectively. Rates are 3 times a days pay for longer hours and twice for holiday
<b>Korea</b>	Maximum 8 hours a day, 44 hours a week excluding rest period. May be extended up to maximum 12 hours a week with mutual agreement. Ministry of Labor approval needed and may order rest period/day-off corresponding to extensions.	Not less than 1/2 hour for every 4 hours and not less than 1 hour for every 8 hours during the course of work. Exclusions for hours per day and rest hours with approval from Ministry of Labor. One or more days off in the week. 1 day leave per month with pay.	More than 1.5 times normal wage for overtime work, night work and holiday work.
<b>Chile</b>	Maximum 48 hours per week, spread out over 5 or 6 days, maximum overtime 2 hours per day.	At least 1 day a week.	50% surcharge for overtime.
<b>Mexico</b>	Maximum 8 hours a day, 48 hours per week, 5 1/2 days or any other arrangement. 40 hours is more common.	At least one half hour per shift (day/night/mixed). One complete day of rest per week.	Must be paid at twice the hourly salary, including holidays. Overtime must be less than 3 hours per day and cannot be performed in more than 3 consecutive days. Overtime beyond 9 hours per week must be paid at 3 times the hourly rate.
<b>United States</b>	No maximum hours in Federal law.	No mandates in Federal Law	Federal law requires that employers must pay employees not less than 1.5 times regular rate for all hours worked in excess of 40 hours a week.

**Table A5: LABOR STANDARDS FOR WORKING CONDITIONS  
(Cont'd)**

	<b>Annual Leave with Pay</b>	<b>Minimum Age of Employment</b>	<b>Menstrual Leave</b>
<b>Indonesia</b>	2 weeks, calculated as 1 day for every 22 days up to maximum 12 days a year. After 6 years in same organization, entitled to 3 months.	15 years. Conditions under which younger children may work specified in law.	Female employees shall not be obliged to work on first and second day of menstrual period.
<b>Malaysia</b>	8 days for every 12 months of continuous service with same employer, if employed less than 2 years; 12 days if 2-5 years; 16 days if more than 5 years. If worked less than 1 year, computed proportionately to completed months in service. Not eligible for leave if absent without leave for more than 10% of working days.	Part X, "Employment of Children and Young Persons", of Employment Act 265 has been repealed.	None.
<b>Korea</b>	10 days leave with pay for one full year service without absence; 8 days if not less than 90% attendance of one year's service. For workers with continuous service of at least 2 years, 1 day for each consecutive year. But may pay wage instead of allowing leave over 20 days.	Minor under 13 years shall not be employed except with employment certificate from Minister of Labor.	One day leave with pay for menstruation every month.
<b>Chile</b>	15 business days per year, with an increase of one business day for every 3 years after 10 years of service.	18 and above may be hired. Hiring of 14-18 with special permission and protection with regard to timetables, workdays, and type of work performed. Below 14 may not be hired.	None.
<b>Mexico</b>	6 vacation days after one year employment, 2 more days for each additional year, up to 12 days. From 5th year of employment, 14 workdays' vacation; every 5 years, 2 more days. Employers must pay vacation premium of 25% of salary earned during vacation days; must be taken within 6 months and when suitable to employer.	Not available	None.
<b>United States</b>	No mandates in Federal Law.	Minors under age 14 are under the legal age for employment, newspaper delivery exempted.	None.



**Table A5: LABOR STANDARDS FOR WORKING CONDITIONS  
(Cont'd)**

	<b>Maternity Leave</b>	<b>Bonus/Profit Sharing</b>
<b>Indonesia</b>	3 months. 1.5 months before and 1.5 after. Maximum extension of 3 months before expected date with medical certificate	New ministerial decree (Sept. 1994) requires all companies to pay 13th month salary timed with religious holiday. This used to be strongly recommended previously, will now be compulsory. Includes basic salary and fixed allowances.
<b>Malaysia</b>	60 consecutive days and employer must pay a maternity allowance for this period. Maternity leave shall not begin earlier than a period of 30 days immediately before, nor later than day following confinement. No maternity allowance if at least 5 surviving children.	None.
<b>Korea</b>	60 days leave with pay. But more than 30 days shall be reserved for use after childbirth.	None.
<b>Chile</b>	6 weeks before delivery and 12 weeks after childbirth, with a state subsidy. Leave also available with state subsidy to care for sick child under 12 months (transferable to father).	None.
<b>Mexico</b>	Not Available	Christmas bonus at least 15 days salary considered part of the salary and must be paid before December 20. Employees must receive share of enterprise profits as determined by National Committee for Employees' Profit Sharing in Enterprise. Currently 10% of pre-tax income, some exclusions.
<b>United States</b>	Not Available	None.

**Table A6: UNION REGISTRATION, EXTENT OF SECURITY, ALLOCATION OF COLLECTIVE BARGAINING RIGHTS**

	<b>Regulations on Formation of Legal Unions</b>	<b>Property Rights to Represent Workers in Collective Bargaining</b>
<b>Indonesia</b>	A trade union at any level must be registered at the Ministry of Labor. Registration of a federation requires representation in a minimum number of provinces, regions, factory and minimum membership in each factory unit. A new law permits establishment of independent plant unions.	Unions must be registered to enter into binding contracts at any level. Collective labor agreements by "independent" unions beyond plant level are still effectively not possible in law.
<b>Malaysia</b>	Registration is required to have rights and activities of a union. Employer must recognize the union. Registrar has powers to refuse or revoke registration under certain circumstances. Minister of Labor has extensive powers and may suspend unions for security.	A union must be registered and also recognized by the employer by established procedure, as the proper body to represent the class of workers who form its membership. Members of a union must be of a similar trade or industry or within a single enterprise.
<b>Korea</b>	Workers may organize or join a trade union at liberty. Enterprises must establish a labor-management council to decide working conditions.	The representative of a trade union or those who are duly authorized by the trade union can negotiate a collective agreement. Unit trade unions may entrust the federation of unions to which it is affiliated with the power to negotiate.
<b>Chile</b>	Registration of Trade Unions does not require prior authorization at all levels. Law establishes minimum size and/or representation rules for unions depending on size of unit. Unions may affiliate with others; trade unions with confederations, federations, centrals.	Workers affiliate to enterprise level unions. Two or more enterprise level unions may coexist, unions may affiliate with others, but collective bargaining beyond the firm level requires voluntary cooperation of employers.
<b>Mexico</b>	Law guarantees freedom of association. Previous authorization is not required for establishment of a labor union which can be established with at least 20 workers in active service.	Only a trade union (not a coalition) may sign a collective agreement on behalf of workers. Unions can be craft, enterprise unions, industrial unions, national industry-wide unions, multi-craft unions. Union must represent majority workers in an enterprise/ establishment.
<b>United States</b>	Employees have right to form, join, or assist labor organizations. Unions must be selected by a majority of workers in the bargaining unit. Employer recognition of the union as the exclusive bargaining representative can be settled by elections conducted by National Labor Relations Board (NLRB).	Unit of employees must be appropriate for collective bargaining, i.e., employees must have substantially similar interests regarding wages, hours, working conditions. Bargaining unit may cover employees in one or more plants of the employer; appropriateness is determined by NLRB by case.

**Table A6: UNION REGISTRATION, EXTENT OF SECURITY, ALLOCATION OF COLLECTIVE BARGAINING RIGHTS (Cont'd)**

	<b>Extent of Union Security</b>	<b>Application of Collective Contract</b>	<b>Union Dues</b>
<b>Indonesia</b>	Termination of employment on the basis of establishment or union membership is not permitted. No specific reference to union security.	Manpower Ministry could require that the employer extend negotiated benefits to the non-union employees in establishment. Ministry can also decide that part or all of a collective labor agreement can be applied to other employers/employees in same field of activity.	Member contribution is as determined by the Federation of Trade Unions and should be consistent with the constitution and internal rules of the union. Automatic check-off is routed through Manpower Ministry. The law is unclear on collection from non-members who benefit.
<b>Malaysia</b>	Laws guarantee freedom of affiliation and disaffiliation; discrimination on the basis of union status is forbidden. No specific reference to union security.	Collective agreement applies to all members employed at the time or subsequently in the enterprise to which the agreement relates.	As laid down in the rules and constitution of the trade union. Decisions on the imposition of a levy, like other rules, are arrived at through a mandatory secret ballot.
<b>Korea</b>	Employment discrimination on the basis of union status is forbidden. Laws guarantee freedom of affiliation and non-affiliation. Union shops are permitted if negotiated in collective agreements.	A collective labor agreement (CLA) that applies to majority of workers in an enterprise, will apply to all workers there. If two-thirds of workers of the same kind in a region are under a CLA, at request of one or both parties of a CLA or ex officio, the Labor Relations Commission may apply it to all similar workers in the area. A public announcement of such a decision must be made without delay.	Members must pay membership dues every month (less than two percent of the wage thereof).
<b>Chile</b>	Laws guarantee freedom of affiliation and disaffiliation; discrimination and conditioning employment on the basis of union status is forbidden (i.e., closed and unions shops are illegal). There is emphasis on freedom of disaffiliation and an agency shop provision.	Employer may apply the benefits stipulated by collective contracts to workers occupying similar positions or functions as the workers on the contract. In that case, non-members may be required to pay up to 75% of the normal contribution.	Unions are funded by voluntary contributions of members as determined by the union. Union fees are determined by union statutes and must be approved by absolute majority, secret voting. Non-members may be required to pay up to 75% of the normal contribution if they benefit from a CLA.
<b>Mexico</b>	Law states that "no one may be forced to join or not join a union". Yet, a collective bargaining agreement may contain a "closed shop" provision as long as workers employed prior to the agreement who are non-members of the union are not "prejudiced".	The provisions of a CLA cover all the employees of the enterprise or establishment even if they are not members of the union. It may exclude employees in positions of trust whose contracts must however not be inferior.	Through member contributions.
<b>United States</b>	Closed shops are illegal. Union shops are permitted in inter-state trade but they function more as agency shops due to law. States can enact their own laws for intra-state trade and can prohibit union security. 20 states prohibited union security in 1987.	A collective contract applies to all workers in a bargaining unit irrespective of membership status.	Unions are funded through dues, fees and assessments which are voted upon by members.

Source: Republic of Indonesia, 1988, 1992; Encyclopedia of Labor Law 1994; Republic of Korea, 1991; Secretaria de trabajo.... 1992; unpublished document from Embassy of Chile, 1993; Taylor and Witney, 1987.

**Table A7: DISPUTE RESOLUTION AND THE RIGHT TO STRIKE**

	<b>Procedure for Resolving Disputes arising in Collective Negotiations</b>	<b>The Right to Strike</b>	<b>Suspension or Replacement of Striking Workers</b>
<b>Indonesia</b>	Settlement of an industrial relations dispute must go through stages including bipartite negotiations, mediation by a Ministry of Labor (MOL) official and settlement by regional and central committees. Central committee decisions are binding unless nullified by the Labor Minister.	Workers may strike only if negotiations with the official fail or the employer refuses to negotiate. Workers must notify the employer and the Chair of the Regional Committee of their intention to strike and may only strike after the Chair has acknowledged the receipt of the notification (which should be done in 7 days). A strike must be suspended if there is an inquiry.	The law is not specific. But workers may be fired if don't show up for work for 6 consecutive days.
<b>Malaysia</b>	If direct negotiations fail, conciliation by official of Ministry (or as decided by the Director General, Industrial Relations) may be requested. The Minister is provided with the overriding power to contain disputes through the power to intervene. The Minister may impose compulsory arbitration through independent court or call investigation/inquiry.	Yes, if the strike is called by a requested Trade Union on behalf of its members. Sympathy/ political strikes are illegal. The decision must be voted on by secret ballot, receive 2/3 majority and the results communicated to Registrar in 14 days. A strike can only be called 7 days later. It is illegal to strike if there is an inquiry/ investigation or if the matter is with the Industrial Court.	Workers who have gone on strike lawfully cannot be dismissed on grounds that they have been absent from work without reasonable excuse for more than 2 consecutive days as provided in Employment Act.
<b>Korea</b>	If independent negotiations fail, then upon notice of the dispute, the Labor Relations Commission (LRC) appoints conciliation by a conciliation commission. If it fails, the LRC undertakes mediation through a mediation commission. Voluntary conciliation, mediation or arbitration may be chosen. The MOL may decide if there is need for emergency adjustment in which case the "dispute" is suspended and the Central LRC may decide on arbitration.	The majority of the union must cast an affirmative vote on the decision to strike. Notice of the labor dispute to Administrative Authority and to the LRC must be made and a strike can only take place 10 days later. The Administrative Authority (MOL/mayors/ Provincial Governor) may suspend a strike with approval from LRC under certain circumstances.	The law is not specific.
<b>Chile</b>	Apart from self-settlement, voluntary mediation or arbitration may be chosen. Mediation may only last 10 days after the appointment of a mediator. If no agreement is reached, the mediator calls a hearing where last proposals are submitted and the mediator must present a proposal and parties must reply in 3 days.	If no agreement is reached and the contract term expires or more than 40 days after a draft collective contract has been submitted, the workers' Bargaining Committee may call a vote to accept the employer's last offer or to strike. A strike is effective on the third working day after approval if more than 50% of workers in enterprise stop work.	Substitute workers may be hired or striking workers may be allowed to work under the same terms as prior to the strike (but adjusted and adjustable by CPI). The employment contract is suspended, workers are not obliged to work, employers are not obliged to pay wages, but workers may continue to contribute to social security.

**Table A7: DISPUTE RESOLUTION AND THE RIGHT TO STRIKE  
(Cont'd)**

<b>Mexico</b>	Labor disputes can be resolved by direct settlement, conciliation, mediation, arbitration, or by settlement by Courts. A hearing must be held at conciliation and arbitration board to seek settlement of a proposed strike. Within 72 hours of a strike its legal status may be requested from the board.	Partial strikes are not allowed within establishment/enterprise. Solidarity and "justified" strikes are permitted. Notification of the intention to strike must be given at least 6 days before. The union must file the petition with the Council and Arbitration Board, addressed to the employer, who must respond in 48 hours.	For legal strikes all employment contracts are suspended and even temporary replacement workers cannot be hired. If it is a "justified" strike, the employer must meet the workers' demands plus pay wages for lost days. Workers do not have the right to wage compensation in sympathy strikes. If the strike is determined to be illegal, workers must return to work in 24 hours.
<b>United States</b>	Voluntary mediation, conciliation and arbitration available. While parties are not required to use the Federal Mediation and Conciliation Service (FMCS), neutral conciliation is available through it and its decision are not binding.	Yes. Strikes in violation of no-strike clause in CBA illegal. Legal strikes may be "Unfair Labor Practice" or "Economic" strikes. No notification of a proposed strike is required but notification before termination/modification of contract is required to FMCS which is used to assign mediators to cases and for consulting.	Employer may hire replacement workers. In case of ULP strike, employer must rehire the returning strikers even if replacement workers are displaced. In an economic strike, the employer is not required to displace replacement workers but must put returning strikers on preferred list for future vacancies.



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